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VERSAILLES TWENTY YEARS AFTER

ONE of the propositions which could probably be put forward without fear of contradiction at the present time is that the World War did not succeed in producing a satisfactory and lasting peace; the daily papers remind us of that convincingly enough. Beyond this truism, an inquiry into the reasons for this failure reveals considerable divergence of opinion; but there are certain notions which have gained currency until they have become part of the unquestioned belief of large numbers of people. Among such widely held ideas, none is more common than the legend which has grown up around the name of Versailles.

Even among informed people the assumption, explicit or tacit, is often made that the Versailles settlement is the source and fount of the world's subsequent troubles. This conclusion would seem to be the result of a simple syllogism running somewhat like this: the World War was fought essentially for the purpose of establishing an orderly community of nations (whether the emphasis be on making the world safe for democracy, the war to end war, the destruction of militarism, or other kindred slogans) and the primary purpose of the peace was to bring about such a result; now it is clear that such a happy state of affairs has not come into existence; ergo, the war itself was a futile waste and the peace settlements were bad.

The Versailles settlement is now twenty years old and, despite the fact that the German Chancellor seems to find it necessary to resort to periodic announcements of its demise, as

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if unconvinced that he has permanently laid the ghost, his contention should probably be granted. A major war has broken out in Europe which, strange and unexpected though it may be in its early manifestations, has already produced far-reaching readjustments, and it is safe to say that, whatever its outcome, it will in any case relegate the settlement of the World War to the realm of history.

One of the reasons why there has been such disappointment with and condemnation of the peace settlements is that these settlements were conditioned to a large extent by the previous history of Europe. There was, no doubt, much loftly idealism behind the desire to set up a better world, and the recoil is easily understandable when the comparison is made between expectations and actual performance. Charts for utopia are by no means devoid of value, but when dealing with people and nations it is dangerous to lose sight of the subject matter for which the chart is being devised, lest one fall into the unenviable position of serving as an illustration for Pascal's saying: *Qui veut faire l'ange fait la bête.*

With this in mind, a re-reading of the Treaty of Versailles may prove of interest and of value today. Was it a work of pure evil without redeeming features? Was it a defensible settlement? Or was it a mixture of good and bad which might have turned out one way or the other depending upon the use that was made of it? In any case, there can be little value in a purely negative attitude of thoroughgoing condemnation—especially when such an attitude is taken without sufficient knowledge of the provisions of the treaty. If and when an experiment has failed, it would be merely foolish to reverse all the conditions of that experiment in the next attempt; that might easily lead to a worse failure. Much may be gained on the other hand by a careful examination with a view to finding out just where and how the experiment failed. That is the object of the present inquiry.

It will be convenient to examine first the territorial clauses of the Treaty of Versailles. In some respects these provisions are the most important, for territorial changes are, on the whole, more specific and easier to grasp; they have the con-

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crete appeal of a patch of color on the map; and they are, in addition, very difficult to modify. History does not offer many instances of the peaceful alteration of boundaries; as to those changes effected since 1938 by the Third Reich, while it is true that war did not break out in March 1938, in September 1938, or in March 1939, they are rather the preliminary skirmishes of war than fair samples of peaceful change. Economic and political conditions, on the other hand, while they may have more profound effects on greater numbers of people, are apt to operate in a less obvious way, and, for that reason, they may be changed—as in fact they have often been—without arousing the passions of national feeling associated with the re-drawing of maps.

Beginning in the west, Germany lost Alsace-Lorraine to France and the districts of Eupen and Malmédy to Belgium.[1] Alsace-Lorraine, or at least Alsace, is not old French territory, its incorporation into France going no further back for the most part than the seventeenth century, and most of its inhabitants do not speak French but a German dialect. Its restoration to France was, however, almost universally considered to have been warranted. Post-war Germany showed signs of becoming reconciled to its loss,[2] and even the present régime has been loud in denying any revisionist claims in that quarter, although it would be a mistake to assume that, in certain circumstances, the issue will not be revived.

The Saar has been a far more controversial item than Alsace-Lorraine. It must not be forgotten that, in 1919, the territory was not annexed to France but placed under the supervision of the League of Nations. The coal mines were turned over to

[1] This last cession is too small an item to be the source of a major controversy. Some day it may well become the basis of a German claim but it is dwarfed by comparison with larger issues and, for that reason, will not be discussed here.

[2] The Locarno agreement of 1925 pointed to the possibility of a lasting settlement. How far Locarno was accepted in Germany as a permanent arrangement or how far it was looked upon as a stepping stone in the process of freeing Germany from the shackles of Versailles must, in view of subsequent events, remain a matter for speculation. Both views had adherents in Germany.

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France in compensation for the destruction—in part, at least, deliberate and unwarranted—of the French coal mines in the Pas-de-Calais. It is quite natural that Germany should have been suspicious of ultimate French aims in this region, a suspicion to which French policy gave foundation in the years immediately following the war. But, with the passing of time, the administration of the territory began and continued to function with relative smoothness. The plebiscite provided for in the Treaty of Versailles (art. 34) was duly held in 1935 and the territory restored to Germany. Although unnecessary friction had been aroused at times and exception may well be taken to some of the manifestations of French rule, the original French claim was not without foundation. No doubt a better arrangement could have been made in a less overheated atmosphere than that of 1919,[3] but, all things considered, the Saar settlement, as outlined at the time, can hardly be counted as a major fault of the treaty.[4]

Leaving the west, we find that the southern frontier of Germany from Basle to Silesia remained what it had been in 1914. This arrangement might seem at first sight no cause for criticism, but such has not been the case. Two items have been the source of much controversy associated respectively with the two countries bordering Germany along that frontier: Austria and Czechoslovakia. Article 80 of the Treaty of Versailles pledged Germany to "respect strictly the independ-

[3] It may be said that the arrangement for the Saar as finally embodied in the Treaty of Versailles was the result of a compromise and had given rise to a bitter controversy during the Peace Conference between France and her associates. We are concerned here with the treaty as it finally emerged from the negotiations, not with the disputes that went into its making.

As to the contention that France consented to the holding of the plebiscite only out of fear of antagonizing a resurgent Germany, it may be pointed out that, in 1935, Germany had not yet achieved considerable military power, and that French opinion had moved away from the annexationist fervor of 1919. There is no reason to doubt that the Saar wanted to be German, although the situation in Germany constituted a latent form of pressure on the voting.

[4] For an extensive and more critical account of the Saar problem we may refer to Michael T. Florinsky's *The Saar Struggle* (New York, 1934), and for a discussion of the plebiscite itself to the same author's study, "The Lesson of the Saar", *Hungarian Quarterly*, Autumn 1936.

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ence of Austria", which independence "shall be unalienable, except with the consent of the Council of the League of Nations." This was doubtless interference with the sovereignty of an independent state; however, that state was Austria, not Germany. Austria proper, reduced to a population of some 6½ millions, was with Hungary the sad remnant of the once proud empire of the Habsburgs, and a creation of doubtful viability. The problem was particularly acute owing to the fact that Vienna, organized to be the capital of an empire of 50,000,000, contained about one third of the total population of the country. In the circumstances, there developed in Austria a movement for union with Germany. Economically, such an arrangement had much to be said in its favor. But there was natural and legitimate reluctance on the part of the Allies to reward a defeated Germany by an increase of territory and population. As to the strength of the *Anschluss* movement, there was good reason to submit it to the test of time rather than allow irrevocable decisions to be made on the basis of the unreal and transitory internal conditions that were those of the spring of 1919. Ethnic considerations are not alone and in themselves necessarily decisive. There are Germans in Switzerland and French-speaking people in Switzerland and Belgium, both of which countries are sound going concerns; in addition, Austria had a long history quite distinct from, and not a little of it a record of conflict with, some at least of the German states. The real test in this case was whether Austria as an independent country could establish itself on as sound a basis as other small countries, for example, Switzerland, Belgium or the Scandinavian states. Belgium is perhaps the most enlightening precedent, for in that case France, who had designs upon her, was prevented from putting them into effect. This arrangement has proved satisfactory, no lasting grievance has resulted from it, and Belgium is now a well-established and successful nation.[5]

[5] It may well be said that there was not in Belgium a popular sentiment for union with France comparable with the *Anschluss* feeling in Austria. But circumstances in 1919 made it difficult to obtain a fair measure of the strength of that feeling. The fluid condition of Austria-Hungary after the armistices

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With the exception of a small district in Silesia, Czechoslovakia was wholly carved out of Austro-Hungarian territory. As constituted in 1919, its population was made up as follows:

Czechs and Slovaks	8,042,000
Germans	3,781,000
Hungarians	1,071,000
Ruthenes	432,000 [6]

The provinces of Bohemia and Moravia, inhabited by Czechs and Germans, were old historic and administrative entities. The Germans in these provinces lay on the outer fringe contiguous with Germany and Austria. Austria could have been enlarged to include those in the southern region, but a glance at the map will convince one of the impracticability of making part of Austria an irregular and possibly discontinuous ring carved out of the two provinces. It was a question, then, either of incorporating these areas into Germany or of having a large German minority in the new Czechoslovakia. Geographical, strategic, and local economic considerations all militated in favor of maintaining the historic boundaries of Bohemia-Moravia, and this fact, together with the reluctance to aggrandize Germany, resulted in the maintenance of the frontiers of 1914 with Germany. Thereby a problem was created, the working out of which could not be foretold, and about which much ink has been spilled and huge amounts of worthless propaganda have been broadcast. In any case, this was not territory taken from Germany, and, in recognition of the existence of this problem, Czechoslovakia was pledged to

must be borne in mind. As an instance of this we may cite the rumor—a source of much alarm to the Italians—that in the spring of 1919 Austria was being offered concessions at Italy's and Czechoslovakia's expense in exchange for her renouncing the *Anschluss*. In the defeated countries, even more than in the victorious ones, sentiments and policies at the end of the war were guided by immediate events more than by long-range considerations.

[6] These figures are taken from *A History of the Peace Conference of Paris* (London, 1920-24), edited by H. W. V. Temperley, vol. V, p. 155. They are the figures of the Austrian census of 1910 and it is only fair to point out that, in view of the predominant rôle of the German language and of the tendency to assign nationality on the basis of the *Umgangssprache*, these statistics, especially in the towns, tended to be unduly weighted in favor of the German element.

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make a treaty with the Allied and Associated Powers which would contain "such provisions as may be deemed necessary by the said Powers to protect the inhabitants of that State [Czechoslovakia] who differ from the majority of the population in race, language or religion." (Treaty of Versailles, art. 86.)

The Czechoslovak state was the most successful of the succession states that emerged from the war, and while there has been friction between the ruling Czechs and the minorities—German and otherwise—the problem seemed by no means insoluble so long as the country was left free of outside interference. When the Third Reich embarked on its career of expansion, the German minority became a source of trouble in Czechoslovakia and a useful talking point of German propaganda directed toward an ill-informed world opinion unaware of this problem "in a far-away country", as was said in England in the summer of 1938. The Sudeten problem was *not* the real issue at Munich in September 1938, as events since then have made amply clear even to those who wished to take German claims and assurances at face value. If criticism could be directed at the Czechoslovakia created at Versailles, it was more justified in the case of the Hungarian minority, which, unlike the German, was actually detached from its mother country, and in the case of the inclusion of over 400,000 Ruthenes. This last especially, making it possible to establish direct contact between Czechoslovakia and Rumania, did lend color to the charge that the succession states were created for the purpose of keeping the defeated countries in a lasting state of subservience.[7]

Next to Czechoslovakia comes Poland of whose present sad fate every one is well aware. The first thing that should be said about Poland is that the Poland of 1939 was substantially different from the Poland of 1919. The Versailles Treaty contented itself with fixing the Polish frontiers with Germany, leaving the other frontiers to be determined subsequently (art. 87). When they were defined, following ethnic lines for the

[7] On the merits of this contention, see below, p. 22.

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most part, they included neither Vilna nor the large slice of mainly Russian territory acquired by Poland through the Treaty of Riga, which brought to a close the Russo-Polish war of 1920. These large annexations of essentially non-Polish territory can hardly be blamed on the Treaty of Versailles unless one considers the very creation of an independent Poland one of the faults of that treaty.

In discussing the boundaries of Poland two considerations must be kept in mind. First, it must be remembered that it is not always easy to draw frontiers along purely ethnic lines, for, even disregarding the difficulty of determining nationality in a great many individual cases, it is inevitable, in areas of mixed population, that members of various nationalities will be on either side of the boundary. In the absence of well-defined physical features, as in the belt of lowlands stretching across eastern Germany, Poland and Russia, some compromise must be achieved. Another difficulty arises from the fact that the historic frontiers of Poland have done considerable wandering over a large section of the map. Historic reasons may complicate a problem, but if they should not be entertained in support of patently absurd claims, neither can they be ignored a priori. The deliberate German policy of denationalization was a fact that could not be altogether disregarded.[8] From the standpoint of these considerations the frontier between Germany and Poland was not unjustified on the whole. Some measure of its justification may be gathered from the population statistics for the section of Germany that was incorporated into Poland.

Poles	1,844,000
Germans	1,087,000 [9]

[8] On this point we may refer to Raymond Leslie Buell's recent book, *Poland: Key to Europe* (New York, 1939), pp. 59-61.

[9] *Cf.* Temperley, *op. cit.*, vol. II, p. 214. These are the figures of the German census of 1910 and therefore not suspect of Polish bias. In addition, plebiscites were to be held in the districts of Marienwerder and Allenstein, but, inasmuch as these areas were retained by Germany, they need not be considered in this discussion. The result, on the basis of the same statistics, was to leave an appreciable Polish minority in Prussia.

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The German grievances against Poland—and perhaps it may be opportune to recall that, in the years immediately following the peace of 1919, Poland was looked upon by many as *the* great territorial crime perpetrated against Germany — were associated with three names: Upper Silesia, the Corridor and Danzig. Upper Silesia, a rich industrial and mining area, is a district of mixed population, and the Peace Conference decided to make its final allocation dependent upon the outcome of a plebiscite. In theory a plebiscite is an ideal solution, for what could be fairer than to allow a population to choose its own allegiance? In practice it is a delicate and often dangerous instrument. For, even when the preliminary question of who shall be entitled to vote can be settled to the satisfaction of all parties, nothing is more difficult than to insure fair conditions of voting, and Upper Silesia turned out to be a hornets' nest rather than an ideal settlement. When the plebiscite was finally held in 1921, the vote was 707,605 for Germany and 479,359 for Poland. There was much discussion as to whether the results should be applied to the area as a whole or to individual communes; during the debate the Poles invaded the territory and the final outcome was a division of the area between Germany and Poland. This decision served to bolster in Germany the belief that her former enemies, and France in particular, were pursuing a policy of weakening her by all possible means, fair and otherwise. On a purely ethnic basis, the final allotment was eminently fair, but the loss of the coal mines, especially in connection with the temporary loss of the Saar coal,[10] was undoubtedly serious for Germany.[11]

[10] For a period of fifteen years Poland was bound to permit the exportation to Germany, free of all export duties or other charges or restrictions, of the product of the mines in the part of Upper Silesia transferred to her (art. 90 of the Treaty of Versailles).

[11] It had been planned originally to assign Upper Silesia to Poland. The decision to hold a plebiscite represented a concession to Germany which, warranted though it was, tends to show that the territorial arrangements of Versailles were not predicated solely on the idea of finding pretexts to injure her power.

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The Polish Corridor and Danzig gave rise to grievances of a different nature, for in order to give Poland access to the sea, East Prussia was thereby severed from the rest of Germany. "A free and secure access to the sea" had been promised to Poland in the Fourteen Points (Point 13). The Vistula is Poland's life artery, and the city of Danzig at its mouth is Poland's port *par excellence*. It is a German city to the extent of 90 per cent, but when this problem was approached by the committee on Polish affairs appointed by the Peace Conference, it was considered that this fact could not be held to balance Poland's need of a seaport. Danzig was therefore to become Polish. However, in deference to its German character, this solution was rejected and a compromise was adopted instead which created the Free City of Danzig, consisting of the city and some surrounding territory, which was placed under League supervision.

In the case of the Corridor, on the other hand, the province of Pomorze, roughly identical with German West Prussia, was made an integral part of Poland. The impression has been spread that this was purely German territory callously handed over to Poland; on the basis of population statistics this is not correct. According to the German census of 1910, West Prussia was inhabited by 528,000 Poles and 385,000 Germans.[12] Beyond a doubt, the question of securing access to the sea for Poland was a difficult problem and the solution had to be in the nature of a choice of evils. The matter of access to the sea is of great importance for any country and one that cannot always be decided according to an invariable criterion. In the case of landlocked states far away from the sea, such as Switzerland, Austria, Czechoslovakia or Hungary, it would be simply impossible to secure direct access to the sea for them. Poland cannot be put into the same category, for the answer to those who point to the evils of a territorially discontinuous

[12] According to the Polish census of 1931, the province of Pomorze had a population of 1,086,259 of which about 10 per cent were Germans. The discrepancy between these figures and those of the German census of 1910 arises from two facts: the later census was taken under Polish auspices, and Poland had followed in the footsteps of Germany in regard to land and population policy.

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Germany is to point to the greater incongruity of a Poland separated from the coast by a strip of land inhabited largely by Poles but kept in German hands. As recently as 1938, the German Chancellor recognized the necessity for Poland to have access to the sea under her own sovereignty and declared himself satisfied with the then existing arrangement.[13] But perhaps not too much weight should be given to the changing moods of the German Chancellor.

Only time could tell the workability of this whole arrangement for the Corridor and Danzig. Friction and difficulties were to be expected, and perhaps the criticism may be made that the Treaty of Versailles should have reduced these to a minimum by defining more clearly the relationship between Danzig and Poland. With time and a modicum of good will on both sides, it was by no means impossible. The German grievance in this case has not been so much on the score of the cession of a certain amount of territory, which cession could by itself be held justifiable; it was rather "the emotional, as distinguished from the economic and strategical elements involved in the problem, that has exercised the greatest formative influence upon it, and caused it to rank among the international problems awaiting solution by contemporary statesmanship."[14] That a problem exists cannot be denied, but it was not a problem of Versailles' creation. Like many others, it was primarily a problem of Germany's eastern expansion. The mere fact that such problems had been kept quiescent by superior force in pre-war Europe does not mean that they did not exist. Whether Versailles was to succeed or not, it was in this respect at least an attempt at a solution on a sounder basis than mere force. Like Czechoslovakia, Poland was pledged to underwrite a minority treaty (art. 93 of the Treaty of Versailles).[15]

[13] Speeches of February 20 and September 26, 1938.

[14] Ian F. D. Morrow, *The Peace Settlement in the German Polish Borderlands* (London, 1936), p. 185. This book contains an exhaustive analysis of all phases of the problem.

[15] Poland repudiated this treaty in 1934.

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Two more changes were made in the frontiers of Germany in addition to those examined up to now: Memel and Schleswig. Of Memel it may suffice to say that, like Danzig, it was a German city controlling the outlet of a river (the Niemen) serving a non-German hinterland. The territory of Memel, inhabited in equal parts by German- and Lithuanian-speaking people, was placed under League supervision. With little excuse, its seizure by Lithuania in 1923 was eventually ratified,[16] adding a real, if small, grievance to the German list. As to Schleswig, its restoration to Denmark was, as much as that of Alsace-Lorraine to France, the righting of a wrong. The treatment of the insignificant German minority which was placed under Danish rule may well be cited as an example of how minorities ought to be treated, and it could not by any stretch of the imagination be called one of Germany's bleeding frontiers. The only thing that might be said in this connection, in view of the fact that Denmark had not been a belligerent, is that if strict justice in the redress of injuries was to be applied to such a case, an equally high standard ought to have been applied in the case of Germany.

Having made this circuit of the frontiers of Germany as they were drawn by the Treaty of Versailles, the question may be asked: were Germany's territorial grievances justified? The cessions to Belgium, Czechoslovakia and Lithuania were little more than pin pricks. The Danish cession was wholly justified and so was it generally believed was the cession of Alsace-Lorraine. The largest loss went to Poland, but the reason for this was the simple fact, which must be duly emphasized, that in her career of expansion, Germany had extended her rule over large sections of alien peoples. It is true that, historically and on the whole, the eastward progress of the German people had been a civilizing influence, but German rule had not known how to win the allegiance of the subject peoples who found in the defeat of the Central Empires their opportunity of liberation. If any one principle emerged triumphant from the World War it is the principle of nation-

[16] For a discussion of the Memel question we may refer to Morrow, *op. cit.*, chapter xiii.

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ality, and if that principle be recognized, it must also be admitted that the frontiers of 1919, for all their imperfections, were far more justifiable than those of 1914.

To round out the list of territorial changes affecting Germany mention must be made of her overseas possessions. A variety of motives went into the decision to take away the German colonies. The picture which has been drawn of British and French cupidity hypocritically shielding itself behind the cloak of the League of Nations to conceal an old-fashoned seizure of territory is, to say the least, an oversimplification. It is perhaps pertinent to recall that the idea of mandates was of British as much as of American origin.[17] There was also in 1919 a widespread and by many honestly held belief in German colonial incompetence.[18] In itself the idea of mandates was perfectly sound, quite as sound as the idea of the League of Nations to which it was closely related. Little is left of either at present, and what was originally a German suspicion of Allied motives has become a well-founded grievance which, on the plane of the ideology of 1919, it is impossible to answer. It would be inaccurate to say that it was the intent of the Treaty of Versailles merely to despoil Germany of her colonies in favor of her adversaries,[19] and it is only fair to point out that these colonies were not very significant in the German economic scheme. Much of the German literature on this issue may well be discounted, but that has not detracted from the importance of the moral issue

[17] We may refer in this connection to the studies of George Louis Beer collected in *African Questions at the Paris Peace Conference* (New York, 1923). Beer thought highly of British colonial achievements, an opinion to which he had arrived as the result of long and careful study; he could not in any case be charged with any sort of anti-German bias.

[18] The German treatment of natives in Southwest Africa lent color to this belief. The Allies, however, could not be said to be coming into court with entirely clean hands, as witness for instance the Belgian Congo affair at the beginning of the century. For the German case, *cf.* Heinrich Schnee, *German Colonization Past and Future* (New York, 1926).

[19] The cession of German rights in Shantung to Japan instead of their return to China, a decision of expediency, tended to cast suspicion on Allied motives in general.

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which, perhaps more than any other, has contributed to Britain's "bad conscience" toward Germany.

When we turn from the territorial to the economic clauses of the Treaty of Versailles, we find that the quality of thinking that went into the writing of these provisions seems on a different level. The reason for this is to be found in the nature and magnitude of the problem which faced the belligerents, defeated and victors alike, and which they proved incapable of meeting successfully. The central problem was that of reparations. Part VIII of the Treaty of Versailles which had this for a title opens with the famous article 231. This is not the place to enter into a controversy out of which a sizable library has grown, but in deference to the fact that this provision has been so frequently referred to, though its precise wording is not perhaps so well known, it may not be amiss to give an exact quotation:

> The Allied and Associated Governments affirm and Germany accepts the responsibility of Germany and her allies for causing all the loss and damage to which the Allied and Associated Governments and their nationals have been subjected as a consequence of the war imposed upon them by the aggression of Germany and her allies.

This all-inclusive liability had to be defined. It was obvious, even without resorting to detailed calculations, that Germany could not make good all the losses of her enemies, and the treaty quite properly went on to state that "the Allied and Associated Governments recognize that the resources of Germany are not adequate . . . to make complete reparation for all such loss and damage" (art. 232). Nevertheless, the treaty proceeded to enumerate categories of damage for which Germany was liable to such an extent that the Allies and the United States found it impossible to agree on a comprehensive sum to write into the treaty. As an alternative, certain initial payments were demanded of Germany [20] and a Reparation

[20] In addition to these payments, Germany was also deprived of the bulk of her mercantile marine, her transoceanic cables, and her foreign holdings; she was also to make certain deliveries in kind, partly in replacement for the losses incurred by the Allies in the invaded regions.

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Commission was set up whose task it was to assess the liability and to organize its discharge.

The wording of article 231 gave rise to an unfortunate controversy, unfortunate because it served to raise a false issue. If Germany's liability rested on her responsibility for the outbreak of the war, then that liability would disappear in the event that her guilt could be disproved. Such became in brief the gist of the German argument.[21] It may suffice to point out that the subject of reparations was covered by the Allies' reservation to Point VIII of the Fourteen Points which was incorporated into Wilson's Note to the German Government of November 5, 1918.[22] This was accepted by Germany as the basis of her armistice, and from that moment the issue became the technical one of defining the damage.

The inclusion of certain categories of damage, particularly of pensions, in the reparations section of the Treaty of Versailles (Part VIII, Annex I) has been alleged as a breach of the undertaking toward Germany contained in the pre-armistice exchanges. Without reviving this controversy, it is clear that, since Germany would not be able to discharge in full her obligation even within the strictest interpretation of "restoration", there was little point in extending her obligation to doubtful categories.

The central fact was that a war of unprecedented dimensions had taken place, the cost of which must somehow be met. Even if, instead of writing a reparations section into the Treaty of Versailles, the victors and the vanquished had pooled their resources toward the general reconstruction of Europe, Germany would have found the cost appalling. And even if Germany had willingly surrendered all that it was in her power to give up, the Allies would have had to make up a large

[21] This is not the place to enter into a discussion of the proper construction to be placed on article 231. The point is that, correctly or otherwise, this reasoning gained wide currency.

[22] ". . . By it [restoration of invaded territories] they [the Allies] understand that compensation will be made by Germany for all damage done to the civilian population of the Allies and their property by the aggression of Germany by land, by sea, and from the air." *Cf. Foreign Relations of the United States, 1918*, Supplement I, vol. I, p. 469.

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balance. Instead of this, the Germans focused on their grievances, and the Allies—especially the French whose share in reparations was the largest—insisted on seeking to achieve the impossible, until the occupation of the Ruhr and its aftermath convinced both sides that an impasse had been reached and that the problem had better be removed as much as possible from the realm of politics to that of economics.[23]

In actual fact, the net total (if any) of German disbursements was not large, for there was soon initiated the vicious circle of American loans which, through German reparations to the Allies and the Allies' payments on their debts to the United States, unproductively returned to their point of origin, the process lasting until the economic crisis put an end to it through universal defaults and the virtual abandonment of reparations. The transactions showed up as an increase in the foreign obligations of Germany; what has become of these obligations is well known.

The reparations section of the Treaty of Versailles proved indeed to be a dismal failure. It was a reflection of the fact that, in 1919 and for some time after, there was nowhere an adequate understanding—save on the part of some isolated objectors—of the economic implications of what was being attempted. We have since the war become very familiar with problems of foreign exchange and international transfers. Such problems were comparatively speaking academic in the pre-war world, and the world of 1919 thought of a return to normalcy largely in terms of a restoration of the relatively free trade conditions of 1914. It is not that reparations did not properly belong in the peace treaty; the obligation as such was acknowledged by Germany in 1919. But in so far as this part of the treaty sought to achieve the unattainable and thereby made it possible for a time to take refuge from realities into a world of wishful thinking, it is undoubtedly a major failing of the treaty.

[23] The Ruhr episode may well be characterized as the nadir of French post-war policy. It is all the more significant that the liquidation of this adventure, consecrated by the Locarno Pact, marked the initiation of a saner policy of mutual understanding.

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It took a decade for this problem to work itself out. That story has been told elsewhere in considerable detail.[24] The British, who in 1918 had been among the loudest to clamor for the last penny, were quickest to perceive the effect of the system on their economy. The French who, in addition to their war expenditures, had hugely increased their internal debt in the process of rebuilding their devastated regions, were slower and more unyielding. America's contribution consisted in taking the unrealistic position that war debts and reparations were unrelated problems. Unfortunately for this contention, the issue was an economic at least as much as a moral one. The German rôle, in the nature of things, was a relatively passive one of resistance. Inevitably, the tug of war left a trail of bitterness and the Germans could easily forget the implications for their erstwhile enemies of the fact that the war had been fought on the latter's territory and concentrate on the fact that, after the conclusion of peace, foreign troops were quartered on their own land while their sovereignty was being constantly interfered with by a variety of Allied controls and supervisions. The whole episode of reparations is a prime example of the ineffectiveness of war in settling international disputes, and this brings us to the central issue and the real problem of Versailles.

No amount of discussion of detail can be of much avail if the problems of 1919 are taken out of their historical context. The essential background which must be borne in mind is the history of pre-1914 Europe. That period was characterized by the ascendancy of German power. The rapid growth of that power could not do otherwise than bring it into conflict with the other existing Powers. Without passing judgment on the issue of whether Germany was or was not, either immediately or ultimately, responsible for the outbreak of war in 1914, that outbreak may be described as a breakdown in the attempt to achieve a *modus vivendi* between Germany and the other Powers. In the last analysis, the problem was still in 1919

[24] A good account of the story of reparations may be found in John W. Wheeler-Bennett's *Information on the Reparation Settlement* (London, 1930).

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what it had been in 1914, namely, the working out of some satisfactory compromise between conflicting claims if Europe and the world were to exist in peace.

The war, if it had broken German military power for the time being, had also raised or at least emphasized certain complications. In this respect one must bear in mind the large share of the military element in the German state from 1870 to 1914. For all his ability, the blood and iron Chancellor bequeathed a dangerous inheritance to the state which he founded.[25] He was able, so long as he remained in control and because there was enough to do at home in the earlier stages of unification, to maintain the peace; but, though it is true that the reins of power fell into less able hands after his downfall, it is the forces that he himself had set in motion which continued to control the destiny of the German state.[26] This background was responsible for the large measure of abdication of the civil to the military power which occurred in Germany during the war. Worst of all perhaps were the ideas of this military power on the subject of peace, and unfortunately these ideas had had an opportunity of translating themselves into actual practice in the treaties imposed upon Russia and Rumania in the spring of 1918.[27]

[25] The classical contrast between the methods and prevailing spirit of German and Italian unification is very enlightening. The former stood as an illustration of the effectiveness of blood and iron methods in achieving what German liberalism had failed to accomplish during the first half of the nineteenth century; the latter retained the liberal tradition at the root of the newly formed state.

[26] It is of interest to observe that, even during his own tenure of office, Bismarck, originally opposed to colonial expansion, was led to reverse his position on that subject.

[27] On this point we cannot do better than refer to the aptly named book of John W. Wheeler-Bennett, *The Forgotten Peace, Brest-Litovsk* (New York, 1939). The following quotation from General Hoffman's diary in February 1918 (cited on pp. 243-44) makes an interesting comparison with the temper of the Paris negotiations a year later: "To-morrow we are going to start hostilities against the Bolsheviks. No other way out is possible, otherwise these brutes will wipe up the Ukrainians, the Finns, and the Balts, and then quietly get together a new revolutionary army and turn the whole of Europe into a pig-sty. . . . The whole of Russia is no more than a vast heap of maggots—a squalid, swarming mass."

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To be sure a revolution of sorts took place in Germany during the autumn of 1918 and the Social Democrats took over the power somewhat ignominiously abandoned by the ruling military clique. This was all to the good, but there was no way of gauging the dependability of so sudden a change of heart.[28] It would have been merely naïve to expect that by paying lip service to the Wilsonian ideology Germany could escape the consequences of defeat, and the point was made clear by President Wilson in the pre-armistice exchanges.[29] In this connection it may be said that the myth which soon grew up in Germany that she had never been defeated in the field but had been deceived into laying down arms on the strength of the promises made to her—or alternately that she had fallen victim to socialist treason at home—was calculated to arouse suspicion among her former enemies.[30] The facts in the matter are simple enough. Germany gave up the struggle for the one and only reason that, in the late summer of 1918, her military leaders came to the conclusion that it was not possible to carry on any longer. Up to a short time before, when they thought victory still within their grasp, they had nothing but scorn for peace proposals.[31] As soon as they became convinced of their failure they pressed the civil government to extricate itself as best it could.

This rapid change which took place in 1918 constituted the immediate background of the Peace Conference. It cannot be

[28] Even the Social Democrats, although they criticized the Treaty of Brest-Litovsk in debate, would not vote against its ratification.

[29] See in particular Wilson's Notes of Oct. 8, Oct. 14, Oct. 20, and Nov. 5, 1918. The whole of this correspondence may be found in *Foreign Relations of the United States, 1918*, Supplement I, vol. I, and also in *The Messages and Papers of Woodrow Wilson* (New York, 1924), vol. I.

[30] There was no question at first about the genuineness of Germany's defeat. As Brockdorff-Rantzau himself declared upon receiving the peace treaty on May 7, 1919: "We cherish no illusions as to the extent of our defeat, the degree of our impotence. We know that the might of German arms is broken." No one thought of belittling the achievements of German military power, and it can only be described as unfortunate that, instead of Germany resting on her record and acknowledging an honorable defeat, the facts were beclouded by the raising of false issues.

[31] Ludendorff's own testimony may be cited as conclusive evidence on the views of the German High Command.

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used as an alibi for a peace of revenge, but it makes clear two things. First, the Allies could hardly be expected to assume an attitude of forgiving trust, or, to put it more crudely, Germany could have little cause for indignation at the taste of her own medicine. Secondly, it was both natural and legitimate to exact strong guarantees from Germany as a preliminary to the orderly restoration of international life. Therein lies the explanation of the disarmament clauses of the Treaty of Versailles. They were doubtless thoroughgoing and severe, but, in the light of the immediate past, by no means unwarranted.

But we cannot stop at this point. The Treaty of Versailles, like any other treaty, was an expression of the power relationship at the time of its making. Beyond that, if it was to be a positive achievement, it had to lay the bases of future reconstruction. This it attempted to do in two ways. First, German disarmament, which by itself could be no permanent solution, was imposed upon Germany "in order to render possible the initiation of a general limitation of the armaments of all nations" (Introduction to Part V of the Treaty of Versailles). Secondly, in order to establish international relations on an orderly and peaceful basis, the Covenant of the League of Nations was incorporated into the treaty. We are only too painfully aware in 1940 of the fate of both disarmament and the League. The causes for this state of affairs are the history of the post-war years which this is not the place to rehearse. The failure, however, cannot be laid to the Treaty of Versailles which by itself could not control the use to which these provisions were eventually put.

To be sure the charge has been made that both of the provisions just mentioned were no more than an empty and insincere homage to the ideology of the time used as a cloak for old-fashioned British and French domination—especially the latter in the earlier stages and as far as Europe was concerned. Whatever may be said of this interpretation, to which events have given considerable support, it is an oversimplification.

It is quite true that there existed in France in 1919 an annexationist party, just as it is true that there was in Germany

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a party which considered the defeat of 1919 as a mere temporary setback in the growth of German expansion. However, it is also true that French policy was not a threat to the security of other nations; it was rooted first and foremost in a desire for its own security. The issue was how to achieve that security. The problem got off to a bad start for it must be remembered that France too felt herself wronged by the peace of Versailles in that she had been induced to give up what she considered adequate guarantees in exchange for the promise of a re-insurance treaty by her British and American associates. When these declined to implement the guarantee, whether they acted wisely or not, they put themselves in any case in a weak position from which to criticize French policy which took up in earnest the alternative of alliances with the succession states, Poland and the Little Entente group.[32] French post-war policy was dominated by fear, which emotion is unquestionably an unstable and unsound basis for international relations. If these relations were to be established on a solid basis of mutual trust and understanding—and it is hard to see how else a lasting peace can be achieved—it was at least as necessary to allay French fears as German suspicions. All of which does not exonerate France or condemn Germany, but merely goes to show that the problem is one of wide ramifications the solution of which calls for a contribution from all nations.

The situation might have been saved by the League. Unfortunately, it too received a fatal blow almost before it came into existence through the refusal of the United States to take a part in it. We need not go into the circumstances which brought this about or enter into a discussion of America's position in the community of nations. It is safe to say, however, that, whether she will or not, America as a great Power has come of age. Whatever policy she may elect to follow in international relations cannot but have profound and far-reaching effects upon the rest of the world. The strictest

[32] This policy had already come into existence before the American Senate rejected the French treaty of guarantee. The point is that by rejecting this treaty the United States and Great Britain abdicated the possibility of voicing effective counsels of moderation.

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isolationism or the frankest participation will be equally significant in this respect. No amount of ostrich policy can alter that fact.

The League *per se* could not be expected to solve the problems of a distraught and embittered Europe. Its success depended upon the use that would be made of it. Inasmuch as it was in the nature of circumstances that, in the early stages at least, leadership in the League should fall to Britain and France, a large share in the responsibility for its failure must undoubtedly go to these nations.

But failure though the League has been, it was the first attempt at writing into a treaty the rights and duties of members of the comity of nations, large and small alike. Traditionally, small nations had found their safety in the balance of power. This much abused system had worked with a certain measure of success, but it is obviously a relatively crude device which it was sought to supersede by a better one. And this must be said for the League, that its foundation in the recognition of independent nations was essentially sound. Whatever one may think of it, there is no denying the force of nationalism in the history of modern Europe. Nor is nationalism necessarily an evil force; in a world which the growth of mechanical development is making ever more uniform and standardized, distinct national entities can be an element, not only of discord, but of enriching diversity as well. Any attempt at organizing Europe will have to begin by accepting this fact as a starting point; coercing reluctant nations on the plea of economic necessity is an attempt at tackling the problem from the wrong end.[33] To claim that the succession states were artificial creations of the peace treaties is simply to place the cart before the horse. The urge of the subject nationalities to achieve independent existence was much older than 1918, or even 1914; it was indeed the immediate cause of the 1914 outbreak. Versailles and the other peace settlements did not create these nations; they merely recognized them and sought

[33] An enlightening illustration is that of the old Austro-Hungarian Empire which had tried over a long period of time but had failed, despite economic advantages, to solve the problem of nationality.

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to adjust their conflicting claims. Naturally, these newly organized states lived in fear of their national life, and they have been apt to indulge in exaggerated manifestations of nationalism; that is the unfortunate price of their prolonged suppression. One may speak in this connection of the encirclement of Germany — as of Hungary also. But the famous *Einkreisung* is merely the German view of the fact that Germany's neighbors had in common a fear of her power and intentions.

Looking back over the whole edifice of Versailles, we see that if on the one hand it created certain grievances, on the other it redressed greater ones; this is especially true of the territorial settlement. But more important than the specific faults of the treaty, we are faced at every turn with the fact that the outcome of many of its provisions depended upon their application. The great issue was the restoration of confidence, a badly devaluated commodity in 1919. That was not primarily the fault of the treaty, even though it could have been so devised as to be of greater assistance in this restoration; it was the unfortunate but inevitable aftermath of war. Many of Germany's complaints, such arrangements as Danzig for instance, could just as easily lapse into oblivion as develop into critical issues. If Germany and Poland could come to terms, it would matter little in the end what the precise legal status of Danzig was. If the newly formed states could begin to feel secure they might also succeed in organizing a workable economy; for, if national existence comes first, the fact must also be faced that the nations of Europe cannot long deny their interdependence and insist on developing self-sufficient economies. To a large extent that problem is the problem of Germany's place in Europe. There can be no more point in denying Germany her place in Europe than in denying the existence of the other nationalities. It is but natural that Germany should have a dominant position in central and eastern Europe, but a dominant place in the sense of peaceful economic activity, not in the sense of military and political control, especially if accompanied by an absurd superstructure of fanciful theories of race.

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After many false alarms in the early years of the century, the issue came to a head in 1914. Four years of war were not a good prelude to the finding of a sane solution and we have just witnessed another breakdown after an uneasy respite of a mere twenty years. The problem remains essentially today what it was before 1919 and whether European statesmanship can rise to the challenge only time can tell. It must be solved if Europe is to continue in anything like its present form, and if it is to be solved, it is precisely because German power — actual or potential — is as great as it is that Germany will be called upon to make in some respects the greatest contribution to the restoration of sanity and peace.

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AUTONOMOUS PUBLIC ENTERPRISE—THE GERMAN RAILWAYS II *

FINANCES

ADMINISTRATIVE autonomy in the conduct of public enterprise has two aspects. One phase is directive, involving a decentralization of discretion and command. The other phase is procedural; it consists of the relaxation of numerous restrictions which apply to the ordinary operations of government. The full application ot autonomy to public undertakings calls for a combination of both types, directive and procedural. The second, however, may exist without the first.[92] When this is the case, true autonomy is lacking, but the results may be important and valuable. The purpose is flexibility and convenience, not the devolution of authority.

Procedural autonomy may relate to requirements in the fields of both personnel and finance. From the standpoint of the needs of public enterprise, the modification of routine in the latter regard is of outstanding importance. The fiscal procedures of modern states involve numerous restraints which reflect two quite different historical purposes. On the one hand, fiscal machinery was developed in the attempt to establish and to bulwark parliamentary control. An important phase was the requirement that no money might be drawn from the treasury except in accordance with law. This aspect of the power of the purse came relatively late, of course, being ante-

* The first installment of this article, dealing broadly with the organization of the railways in successive periods, appeared in the December 1939 issue of the QUARTERLY. The concluding installment will consider traffic and rates and the problem of the coördination of the several means of transport in relation to the railways.—ED.

92 Illustratively, one may cite the majority of the government-owned corporations set up in the national government of the United States in recent years. *Cf.* John McDiarmid, *Government Corporations and Federal Funds.*

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dated by the winning of the legislative right to authorize the imposition of taxes; but from the time of the revolution of 1688, the practice of specifying the objects and amounts of expenditures in terms of definite fiscal periods came to be understood as a corollary of representative government. Related to it was the further corollary that all receipts of government must be covered into the general treasury. Income and outgo were thus separated; revenue was governed by more or less permanent laws but the handling of appropriations was recurrent. Audit, meanwhile, was developed as a means of securing compliance with the legislative will.

But the financial formalities of present-day governments did not result solely from efforts to fortify the legislature. Many restraints, on the other hand, developed in the attempt to secure administrative integration. This inspiration pervaded budgetary reform in recent decades; it may be traced in the growing power of finance departments; it appeared in the rationalization of accounting and in the centralized procurement of supplies. The two motives of fiscal complication — legislative supremacy and executive integration—have sometimes been in conflict, but their cumulative joint effect is to subordinate the several parts of administration. The result is apt to be especially vexing to the economic undertakings of the state.

These observations give point to an examination of the finances of the German railway system. The preceding survey of the successive stages in the organization of the Reichsbahn has indicated that its directive autonomy has been curtailed. Such was the tendency from 1933 to 1937, even in the absence of formal changes in the law. The acts of 1937 and 1939 have confirmed the trend by placing the directive head of the system in the cabinet and by reducing the already diminished Board of Management to an advisory council. It would have been strange if this had not been the course of events in the treatment of so indispensable a service from which unusual sacrifices were expected by a totalitarian régime under conditions that approximated military mobilization.

The subordination of the managerial judgment of the Reichsbahn has not been complete, of course. Its sheer mass, not to

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mention the distinctively technical problems in which it is involved, guarantees an irreducible degree of independence. In this it has been fortified by a tradition of competence. The continuity of leadership in the person of Julius Dorpmüller, who was its managing director before 1933 and who has remained its head, has been a token of subordination in major policy but has helped to maintain autonomy in fiscal procedure. The survival of the Reichsbahn as an entity must be read largely in its distinctive, self-contained, and relatively flexible financial arrangements.[93]

a. *Budgetary Relationships.* Despite the overtone of the declaration in the constitution of 1919[94] that the railway system was to be "administered as an autonomous economic enterprise", the finances of the newly unified network were incorporated in the general budget of the Reich. This arrangement merely continued a relationship which had characterized the conduct of railways by the separate states. It must not be thought, of course, that the states had quite overlooked the peculiarly economic nature and needs of government-owned railroads.[95] Their budgets had contained special "railway sections", but in these, anticipated revenue and authorized expenditures had been set down, in the normal method of public finance, for a stated fiscal period, usually from April 1 to March 31.[96] Only in matters of expenditure could the budget

[93] *Cf.* Theodor Kittel, "Das Reichsbahngesetz vom 4. Juli 1939", *Archiv für Eisenbahnwesen*, July-August 1939, pp. 821-2, for remarks on the legal implications of the changes wrought by the law of 1939. His comment perhaps overstrains a point of difference in suggesting that the Reichsbahn, though an economic entity and acting like a juristic person in many relationships, is no longer strictly a juristic entity.

[94] Article 92 stated that "notwithstanding the inclusion of its budget and its accounts in the general budget and general accounts", the system was to be "responsible for its own expenditures including interest and amortization of the railroad debt and the accumulation of a railroad reserve fund." *Cf.* Gerhard Anschütz, *Die Verfassung des Deutschen Reichs vom 11. August 1919* (Berlin, 1929), p. 397.

[95] O. Conrad, "Zur finanzwirtschaftlichen Selbständigkeit der Deutschen Reichsbahn", *Archiv für Eisenbahnwesen*, July-August 1936, pp. 725 *et seq.* What has been said of the states applied also to the conduct of the nationally owned railways in Alsace-Lorraine prior to 1918.

[96] *Ibid.*, p. 727.

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law speak authoritatively. The estimates of revenue were subject to many uncertainties. No organic relationship was established between outgo and income. Current surpluses flowed into the general treasury, from which deficits, if any occurred, were to be made up. Meanwhile the economy of the country was expanding. The railroads still held a *de facto* monopoly in transportation. With a rising income, therefore, granted a fair degree of administrative competence, the railways could tolerate the rigidities of a bureaucratic budget.

Even in relatively prosperous times, however, there was criticism. Partial steps were taken toward autonomous financing. Prussia, definitely from 1882 on, segregated borrowing in behalf of its railways. Beginning in 1903, and further in 1910, Prussia provided for an equalization reserve which would cushion the general exchequer against fluctuations in railway income. The motive was partly the convenience of the treasury but the beginnings could be seen of an effort to protect railway managements against the grasping hands of finance ministers.[97] In the year before the World War, the Prussian state railways began to issue a yearly balance sheet and statement of profit or loss. This was significant, even though the underlying bookkeeping was still cameralistic and information was lacking on questions germane to these matters, such as cash on hand and the amount of inventories.

The fear of irresponsible government had been a factor in keeping the railroads within the frame of the budget. Socialists, for example, were anxious lest the government's possession of a lucrative property might make a Bismarck even more independent of legislative grants.[98] This suspicion colored

[97] *Ibid.*, pp. 733-5.

[98] August Bebel wrote: "Another question of the day was the nationalization of the railways, which had been planned by Bismarck. The Congress [at Gotha in 1876] declared in favor of nationalization, but against acquisition by the Empire, because such acquisition would serve only the interests of the aristocratic and militarist State; the revenue would be wasted on unproductive expenditure whereby the Empire would acquire further power—a power hostile to Democracy; and great sums of money belonging to the nation would fall into the hands of the market-riggers of the Bourse." *My Life* (London, 1912), p. 301. *Cf.*, also, W. E. Walling and Harry Laidler, *State Socialism, Pro*

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their attitude toward railway unification. In 1919 it merged with the notion that the railroads should serve economic needs and not be treated as a "milking cow".[99] In the proper fiscal framework, autonomous management might indeed be the best assurance that railroad earnings would be devoted to railway needs and thus directed to the benefit of shippers and passengers. But traditional scruples made the affirmation of autonomy in the Weimar constitution a hesitant declaration, while the immediate emergency prevented the realization of even the degree of administrative independence contemplated in the phrase "selbständiges wirtschaftliches Unternehmen".

The remedy was sought in surgery, but only after the worst of the crisis was over. The cessation of subsidies on November 15, 1923 carried the corollary of self-contained railroad finances. This ideal was embodied in the organization of the *Unternehmen Deutsche Reichsbahn,* established by law in February 1924. The Dawes Plan, which was applied to the German railroads by a statute later in the same year, emphasized the fiscal independence of the system, so far as the German government was concerned, while introducing considerable directive autonomy. The amendatory railroad law of 1930 eliminated foreign participation in the management but left the financial relationships of the Reichsbahn to the government substantially unchanged. Nor did the laws of 1937 and 1939 drop the principle of separate and internally flexible railroad finance.

What has changed has been the budgetary system of the Third Reich itself. In a parliamentary sense, the state budget hardly exists. No full budget has been published since 1934.[100] No figure relating to revenue from taxation has been divulged. Budgeting under National Socialism has consisted essentially of confidential and separate negotiations between the potent minister of finance, as an organ of the supreme will,

and Con (New York, 1917), p. xxix, quoting from H. Laufenberg in *Die neue Zeit* in 1913.

[99] Anschütz, *op. cit.*, quoting from committee proceedings.

[100] James Kerr Pollock, *The Government of Greater Germany* (New York, 1938), p. 114.

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and the several ministers.[101] This condition has eliminated much of the rigidity that attends parliamentary budget-making. From this standpoint, economic undertakings like the railroads might be handled on the same basis as other governmental activities. It is interesting, however, that the idea of separate and distinctive treatment of railroad finances is still maintained.

b. *Borrowing and the Debt Structure.* An economic enterprise such as the German railways must, in the course of its history, acquire, maintain, renew, and at times also extend an enormous and costly physical equipment. Apart from these long-run needs, it must cope with current irregularities. Debt can hardly be avoided. It is true that once such an undertaking has been substantially completed, assuming sustained earnings, a drastic scheme of reserves might enable it to keep abreast of technical advance without borrowing. This solution of the problem of capital debt may well be held as an ideal by the managers of public enterprises, but it is an ideal to be pursued cautiously. Unlike corporate private enterprise—which is not supposed ever to pay off the principal of the capital sums acquired by it through the sale of stock—public enterprise need not cherish a permanent debt as a lasting basis for dividends.[102] But thoughtful directors of public undertakings are aware that an over-ambitious policy of debt retirement and of development on the basis of reserves accumulated from current income may sometimes unduly burden the present generation of consumers. The result may be more serious than a theoretical injustice, for the policy may discourage the promotional price-cutting which may be needed to reach the potential demand.

[101] Vaso Trivanovitch, *Economic Development of Germany under National Socialism*, p. 140.

[102] The remark in the text deliberately disregards the argument that the capital structures of public and of private enterprise should be maintained and paid for on the same basis—that of private enterprise—in order to facilitate comparisons. The fallacy of this point of view is that it unfairly narrows the grounds of appraisal. The comparison of public and private enterprise is not a matter merely of managerial and engineering skill; it is a question, at bottom, of two methods of obtaining capital.

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When borrowing must be resorted to in behalf of public enterprise, the most interesting questions center in the problem of autonomous organization. Should the basis of credit be the property and earnings of the undertaking itself, or the combined resources and taxing power of the general government which is involved? And where should the authority to sanction borrowing be located? Many conflicting considerations are involved. When securities are issued on the credit solely of the enterprise itself, the rate of interest may be higher than with obligations of the general government. Such, indeed, is the normal expectation. But the situation may be reversed by reason of an abnormal political scene, or by a depression so general that it prostrates the ordinary bases of taxation, or the reversal may result from the sheer strength of a strategically placed, well-managed, and highly reputable public enterprise.[103] Even when equal or lower interest rates are not obtainable, furthermore, the arguments for autonomous management may seem to warrant self-directed and self-sustained financing. Against these arguments, however, arises a consideration to which the friends of public enterprise are likely to give ear: that control over new capital expenditure is a peculiarly effective point at which the direction and rate of expansion of any activity may be guided in behalf of an overall coördination of economic effort. At the very least, moreover, the borrowing requirements of the general government seem to justify some sort of defensive veto by it over borrowing by semi-independent public agencies. The interplay of these factors has been illustrated, though not always acknowledged, in the history of the German railways since unification. But the lessons have been blurred by truly extraordinary circumstances.

The disposition of the railway debts of the *Länder,* existing prior to unification, first claims consideration. It is funda-

[103] In the United States, especially, extensive experience with revenue bonds, so-called, is perhaps too recent to be conclusive either way, even on the question of relative interest rates. *Cf.* Laurence S. Knappen, *Revenue Bonds and the Investor* (New York, 1939); also John E. Fowler, *Revenue Bonds* (New York, 1939).

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mental to note that these obligations were assumed by the Reich itself, not by the new railway system. Their assumption was a phase of the indemnification of the states.[104] So far as the former state debts were taken over by the Reich under these conditions, they were destined to be virtually liquidated later along with the debt of the Reich itself.[105] Meanwhile the *Länder* were claimants for the amounts by which in each case the total indemnification exceeded the transferred state railway debt. As the situation stood in April 1924, out of a total purchase price of 39,063,378,081 paper marks, a balance of 8,633,450,766 was owing to the *Länder*.[106] It would have been contrary to the salient purposes of the Dawes Plan in 1924 to saddle prior debts and claims on the railway system, which the Reich was then yielding as a concession. As a gesture of compromise to the *Länder*, it was promised that they might share in dividends through the assignment of one fourth of the shares of common stock, amounting to 3.25 million gold marks. But the transfer of stock (which indeed was never issued) did not take place[107] nor were dividends paid to the *Länder* in

[104] Because of varied financial situations in the several *Länder*, the arrangements for indemnification were complicated by optional alternatives, set forth in the state treaty of acquisition concluded on March 31, 1920 (*RGBl*, p. 773). *Cf.* Heinrich Triepel, *Quellensammlung zum Deutschen Reichsstaatsrecht* (3rd edition, Tübingen, 1922), pp. 112-20. The assumption of the state debts in this connection was further implemented by a law of July 29, 1922 (*RGBl* II, p. 693), concerning the execution of the state treaty regarding the transfer of the state railways to the Reich.

[105] The law of July 16, 1925 (*RGBl* I, p. 137) converted the debt of 74 billion RM—of which 15,256,836,957 RM were obligations taken over by the Reich in connection with railway unification—into a Conversion Debt (*Anleiheablösungsschuld*), the base and minimum rate being 2½ per cent. *Cf. Denkschrift über die Ablösung der Markanleihen des Reichs*, Reichstag, IV. Wahlperiode, 1928, No. 474.

[106] In the case of Prussia, the purchase price had been 29,059,883,610 (paper marks), the balance to be paid was 4,885,821,886; in the case of Bavaria the balance was 560,342,746, against a purchase price of 3,687,619,158. The proportion of the balance to the original sum was greater in the case of five of the six other "railway states". Adolf Sarter and Theodor Kittel, *Die neue deutsche Reichsbahn-Gesellschaft*, pp. 36, 98.

[107] Wilhelm Utermann, "Die öffentlichen Lasten der Reichsbahn", *Wirtschaftsdienst*, Sept. 18, 1931, vol. 16 (38), p. 1596.

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question. Numerous complaints were heard.[108] At last, following the subordination of the *Länder* in 1934, a law of May 14, 1935 expressly extinguished any claims that might continue on the basis of the original treaty for the acquisition of the state railway networks.[109] Thus ended a dispute which had simmered for a decade.[110]

Although freedom was won from various historic obligations, the national system was at times sorely beset. During the early period of unified operation, the depleted and burdened network incurred repeated deficits; in this its course paralleled that of the general government on which it was dependent.[111] During inflation, the relative inflexibility of rates rendered the railways especially vulnerable. National subsidies ceased on November 15, 1923. Currency stabilization, however, had not yet become an effective fact and its inauguration was attended by strains of a new kind. The immediate need for cash in the railway system was met by emergency money, while the purchases which were absolutely necessary were financed by short-term promissory notes discounted by the Reichsbank. These short-term obligations were taken up after the reorganized railways began to operate as the *Unternehmen Deutsche Reichsbahn*.[112]

[108] *Cf.*, for example, Saxony's claim of 377 million RM, voiced in 1929. *Stenographische Berichte, Verhandlungen des Reichstags*, vol. 424, p. 1228(C). *Cf.*, also, *ibid.*, vol. 425, p. 2635 (C).

[109] *RGBl* II, p. 437, section 2 stipulating: "No further payments will be made by the Reich by virtue of the state treaty, the law executing the treaty of July 29, 1922 (*RGBl* II, p. 693), and the agreements entered into in connection therewith."

[110] If these relations seemed high-handed, the wrong was offset by two considerations during the early and middle course of federalism under the Weimar constitution. First, the possession of the railways might have crippled the *Länder* in the days of deficits and the later days of reparations. Second, the ultimate fairness of any settlement between the central and local governments must be considered in terms of the totality of inter-governmental fiscal relations within Germany. *Cf.* Paul H. Wueller, *The Integration of the German Tax System* (New York, 1933).

[111] James W. Angell remarks: "In the five years from 1919 to 1923 the Government's receipts, measured in gold values, never came near equalling its expenditures, and for the period as a whole averaged only about 25 per cent of them." *The Recovery of Germany*, p. 29.

[112] Julius Dorpmüller, "Die Deutsche Reichseisenbahn 1918-1936", *Deut-*

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The vicarious liquidation of the railway debt during inflation was cited as a partial justification for the task imposed on the Reichsbahn by the Dawes Plan, incorporated in the law of August 30, 1924. The railroads, it will be recalled, were mortgaged to reparations, and special bonds to the amount of 11 billion gold marks were rendered by the Reichsbahn to the Trustee for the German Railway Bonds. Interest was to be paid at the rate of five per cent annually; after the fourth year from the commencement of the plan a sinking fund of one per cent per annum on the total amount of the bonds issued, whether redeemed or unredeemed, plus the interest amount saved by amortization, was set aside for their redemption.[113] When this became fully effective in 1927-28, it amounted to 660 million RM yearly, which was 26.4 per cent of the standard annuity due from Germany under the Dawes Plan.[114] In addition, proceeds from a transport tax—which even before unification had become a feature of German public finance—were to be turned over to the Agent General for Reparations up to the amount (after 1926) of 290 million RM annually.[115]

sches Institut für Bankwissenschaft und Bankwesen, Probleme des Deutschen Wirtschaftslebens, p. 36.

[113] Par. 8 of the by-laws; *cf.* Gerhard Lassar, "Reichseigene Verwaltung unter der Weimarer Verfassung", *Jahrbuch des öffentlichen Rechts der Gegenwart*, vol. XIV (1926), pp. 187-8.

[114] Angell, *op. cit.*, p. 68.

[115] Under a law of April 8, 1917, the transport tax replaced a then existing stamp tax. Under the Dawes Plan, the yield of the tax above 290 million RM was to go to the Reich. In 1925 the total yield was 300.7 million RM; in 1926, 271.6; in 1927, 309.7; in 1928, 318.9; and in 1929, 325.3. *Cf. Wirtschaftsführung und Finanzwesen der Deutschen Reichsbahn* (Berlin, 1934), p. 71. After 1930, under the Young Plan, the whole yield was retained by the Reich. The rates of the tax (as amended October 7, 1929) were: freight, 7 per cent; baggage, 12 per cent; third class passenger traffic, 11 per cent; second class, 14 per cent; first class, 16 per cent. In addition to the transport tax (in which the railway system was a conduit), the Reichsbahn has been subject to a number of other taxes; namely, a turnover tax, a tax on industrial enterprises, national and state stamp taxes, church taxes, school taxes, poor relief, dike taxes, taxes of communities on real property and buildings, and the automobile tax. It has been exempt from the corporation tax, the capital tax, taxes of the *Länder* on real estate and buildings, and the tax on trading profits. Payments on the foregoing amounted to about 18 million RM in 1929, and 23.8 million in 1937. *Cf.* Hans Baumann, *Deutsches Verkehrsbuch*, pp.

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ELECTRONIC REPRODUCTION PROHIBITED

The payments on the mortgage bonds and from the tax together were presumed to make the contribution of the railroad system to reparations 38 per cent of Germany's payments in a standard year under the Dawes Plan.[116] The new bonded obligation of 11 million RM could be compared with the aggregate pre-war railroad debt in Germany of 11.8 billion marks, which in terms of 1928-29 values might be considered equal to 16.5 million marks.[117]

In addition to the unique external obligation represented by the mortgage bonds, which had not provided capital in any sense, the law of August 30, 1924 introduced two features which are usual enough in corporate finance but which were rendered novel by the frame in which they were set. One was the arbitrary creation of a body of common stock; the other was the authorization of preferred shares. Common stock amounting to 13 billion RM was assigned to the Reich; if it chose it might transfer ownership of part to the *Länder*. In practice, the stock remained a bookkeeping fiction.[118] No part of it has passed to the *Länder;* no effort has been made to treat payments by the railroads into the general treasury as dividends on this stock. The common shares, therefore, remained an inert symbol of semi-independent status under the

153-4, and *Archiv für Eisenbahnwesen*, 1938, p. 898. For an invidious comparison, offered in the sitting of February 21, 1929, to show the relative tax burdens of privately and publicly owned railways, *cf. Stenographische Berichte, Verhandlungen des Reichstags*, vol. 424, p. 1247(C). It is unnecessary to point out that any such comparison must take account of the full burden of public responsibility, which may be in many forms. Taxes are included in working expenses.

[116] Angell, *op. cit.*, p. 68.

[117] Angell (*op. cit.*, p. 68), citing *Die Deutschen Eisenbahnen, 1910-1920* (a publication of the German ministry of transport in 1923).

[118] Napp-Zinn, "Die Deutsche Reichsbahn-Gesellschaft", *Schriften des Vereins für Sozialpolitik*, vol. 176, part 2, pp. 355-7. In 1924, the value of the concession by the Reich to the *Reichsbahn-Gesellschaft*, which was to run until 1964, was valued at 24.5 billion marks, which, however arbitrary some of its features may necessarily have been, was probably a fair valuation. It corresponded to the sums of 11 billions of reparation bonds, 13 billions of common stock, and 500 millions of preferred shares which were to go to the Reich without payment.

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ownership of the Reich, until the shares themselves were eliminated by the law of February 10, 1937.

The preferred shares were intended to be a dynamic element in the new capital structure. Their original purpose was threefold: they were to provide for the needs of the railway system as they arose; private investors might thereby participate in oversight; incidentally, by permitting the Reich to share in the first issue, it was thought that the payment of the Reich's second installment under the Dawes Plan would be facilitated. The sale of two billion RM of preferred shares was authorized. They were transferable by delivery; they carried the claim to a cumulative preferred dividend; and they carried the further right to repayment of the principal on the termination of the concession.[119] Originally there was no guarantee of dividends by the Reich itself. A few years after the establishment of the scheme, however, the Reich guaranteed a seven per cent dividend. In partial return, it assumed the right to appoint the representatives, if any, of the preferred shareholders, acting in this matter through the president of the Court of Audit.[120] If redemption was not possible by December 31, 1964, the concession was to be prolonged until redemption was effected, unless the Reich placed the necessary funds at the disposal of the *Reichsbahn-Gesellschaft*. One fourth of the preferred shares were allocated to the general government. This condition was signalized in 1925 by the issuance to the government, without payment by it, of 500 million preferred shares.

It has been remarked that the preferred shares made possible the participation of private investors in the direction of the Reichsbahn. For every block of 500 million RM of preferred shares, one representative of the shareholders might be chosen, who would replace one of the government representatives on the Board of Management. This stipulation echoed some of

[119] Law of August 30, 1924, par. 5, sec. 1, sent. 2, and secs. 4 and 25 of the by-laws (*Gesellschaftssatzung*)—annex to par. 1, sec. 2, of the law. *Cf.* Sarter and Kittel, *op. cit.*, p. 95.

[120] Theodor Kittel, "Die Grundgedanken der neuen Reichsbahn-Gesetzgebung", *Archiv für Eisenbahnwesen*, May-June 1937, p. 266. Private purchasers of preferred shares hold only certificates; the shares are deposited in the Reichsbank.

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ELECTRONIC REPRODUCTION PROHIBITED

the criticisms of public enterprise made by the railroad experts who advised the Dawes Committee.[121] In Germany it fell in with the familiar pattern of mixed enterprise, to which it bore a strong resemblance.[122] But in practice direct participation by investors was not realized. In the first place, there was a tendency to avoid private sale. In addition to the 500 million RM worth gratuitously given to the Reich, 124 millions were taken up by it later in 1925 and 107 millions in 1926. For public sale, 150 millions were authorized in 1926 and 225 millions in 1928. Of the last mentioned amount, however, 25 million RM remained unissued. In the second place, it became a requirement that the president of the Court of Audit must make selections in the name of the holders of preferred shares. Of the two billion RM of preferred shares (designed since 1930 as Group A) permitted by the law of 1924, a total of only 1,081 millions has been issued—all before 1930. These so-called shares are in fact certificates of indebtedness rather than stock. In 1937 they constituted a little over 42 per cent of the indebtedness of the Reichsbahn.

The law of 1930 which gave effect to the Young Plan cancelled the reparation bonds of the Reichsbahn and eliminated foreign participation in its management. In place of the interest and sinking fund payments which the bonds had entailed, and the share of the transport tax also exacted, the new arrangement substituted a single annual charge (called a tax) of 660 million RM, to be paid for thirty-seven years. Only wages might have priority over this obligation, payment of which was also guaranteed by the Reich itself. At the same time, greater borrowing facilities were given.

[121] In order to encourage the participation of private investors as a permanent element in management — an ideal envisaged by the advisers of the Dawes Plan—it was provided that if preferred shares were retired before 1949 the holders were entitled to a premium of 20-10 per cent.

[122] *Cf.* Richard Passow, *Die gemischt privaten und öffentlichen Unternehmungen auf dem Gebiete der Elektrizitäts- und Gasversorgung and des Strassenbahnwesens* (2nd edition, Jena, 1923); Fritz Terhalle, "Die gemischtwirtschaftliche Unternehmung", *Moderne Organisationsformen der öffentlichen Unternehmung*, pp. 325-80, part 1, vol. 176 of *Schriften des Vereins für Sozialpolitik.*

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ELECTRONIC REPRODUCTION PROHIBITED

Despite the fact that an additional issue of 2 billion RM of preferred shares (Group B) was authorized, the subsequent needs of the railroads were met partly by a series of long-term and middle-term obligations, partly by a mounting body of current credit, partly by sheer postponement of desirable replacements. In 1930 the Reichsbahn shared to the extent of 253 million RM (after a discount of 42 million RM had been deducted) in the international 5½ per cent loan arranged in behalf of Germany as a phase of the Young Plan negotiations. Here the basis of credit was that of the general government, not the railroad system. The Reichsbahn's indebtedness rapidly mounted in connection with the attempt to lessen unemployment by increasing orders for supplies and the like. In 1930, at the request of the government, the railway system issued certificates at 6 per cent to the amount of 150 million RM. When these became due in 1935, they were converted into a six-year loan at 4½ per cent. In 1931, again primarily for the relief of unemployment, a 4½ per cent loan was arranged, payable in yearly installments to 1941, which yielded the Reichsbahn 263 million RM.[123] In this case the government by presidential ordinance not only offered the lure of tax exemption but also allowed persons liable to prosecution for tax evasion to win immunity by purchasing railroad bonds in accordance with ratios based upon the degree of their delinquency. Thereafter, so far as the railroads borrowed at all, recourse was had to relatively onerous short-term financing. A presidential ordinance of March 18, 1933 sought to facilitate matters by providing that "securities issued by the *Deutsche Reichsbahn-Gesellschaft* or certificates covering such securities are admitted to every exchange for trading purposes."[124] Some of the financing was accomplished through the *Deutsche Verkehrs-Kredit-Bank AG* (a virtual subsidiary of the railroad system, founded for another purpose in 1923),

[123] The ordinance of September 19, 1931, part 3, relating to "the granting of tax-amnesty through the acquisition of tax-free Reichsbahn loan 1931", *RGBl* I, pp. 503 *et seq.* This extraordinary bit of law-making was based on Article 48 of the constitution.

[124] *RGBl* I, p. 109.

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ELECTRONIC REPRODUCTION PROHIBITED

which now launched two subsidiaries, *The Reichsbahn-Beschaffungs-GmbH* and the *Reichsautobahnen-Bedarfs-GmbH*.[125] Drafts drawn on these institutions by concerns which supplied materials to the railroads or the express highways were rediscounted by the Reichsbank. The aggregate obligations of the Reichsbahn, which amounted to less than two billion RM in 1932, rose to 2,900 million RM in 1935.[126] The fact that the total had dropped to 2,525.1 million RM in 1937 was not so much a token of the cessation of need for money as a sign of physical neglect of the hard-driven railway system.[127]

It is not that the power to borrow is lacking under the present provisions of law. The enactment of July 4, 1939[128] has already been mentioned as the capstone of railway legislation. It was not less noteworthy because its chief rôle was to perfect provisions that had already been introduced, especially by the law of 1937. Here it is enough to summarize its main features so far as they bear on the possibility of borrowing by the Reichsbahn. In recognizing the railway system as a "separate property" (*Sondervermögen*), the law stipulates that this property is not liable for other obligations of the Reich and that, conversely, the Reich is not liable for obligations incurred by the Reichsbahn in excess of its worth (*Reichseisenbahnvermögen*). Under paragraph 8 the railway system is

[125] These institutions, among others, will be further described in a survey of the ramifications of the Reichsbahn in the third installment of this article, to appear in a later issue of the QUARTERLY.

[126] E. Ziche, "Die Leistungen der Deutschen Reichsbahn nach dem Geschäftsbericht 1936", *Archiv für Eisenbahnwesen*, September-October 1937, p. 1064.

[127] A note in the supplement to the weekly report of the *Institut für Konjunkturforschung* for September 22, 1938 listed the "new capital investments of the Reichsbahn for a number of years, as follows: 1928, 302.1 million RM; 1932, 50.2; 1933, 165.1; 1934, 252.9; 1935, 182.4; 1936, 173.1; 1937, 260.1. It was ironic that in 1936 the Reichsbahn was lending its credit for the development of the express highways. This aspect will be dealt with in a discussion of coördination in transport in the third installment of this article. The *Geschäftsbericht* of the Reichsbahn for 1938 twice stressed the necessity of renewal of rolling stock. "It will be necessary to have recourse to the capital market in order to replenish materials."

[128] *RGBl* I, p. 1205.

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authorized to take up loans. Credits may be secured either through the issuance of debentures (*Schuldverschreibungen*) or railway treasury certificates (*Schatzanweisungen*), through the sale of bills of exchange, or the raising of loans, the indebtedness being evidenced by certificates. In the case of the first two credit instruments mentioned, the consent of the minister of finance is necessary. Nor does the power expressly given to him stop there. He must be consulted about the investment of liquid assets and, according to the ordinance [129] executing the law, his approval must be obtained for various unusual transactions, including the acquisition of other railroads by the Reichsbahn, and the creation or acquisition of, or participation in, other undertakings if such undertakings involve an investment of over one million RM.

In practice the Reichsbahn has been on thin rations. It has not been a matter of wonder, of course, that, after a brief spurt of purchasing and rebuilding (partly as a phase of a work program aimed at unemployment), long-run requirements were postponed during recent years and replacements neglected even to the point of danger. The announcement in the spring of 1939 of an active, almost hectic, program for the purchase of equipment was hardly an act of prevision; rather, it was an effort to ward off a crisis. In a sense it was too late, for the cognate industries were hardly in a position to furnish, with the speed and in the volume that unusual needs now made imperative, the 6,000 locomotives, 112,000 freight cars, 10,000 passenger cars, and 17,300 motor trucks and carriers, which were to be acquired in the course of four years.[130] In November 1939, announcement was made of the consummation of

[129] July 5, 1939, *RGBl* I, p. 1213.

[130] A summary by the Transportation Division of the Bureau of Foreign and Domestic Commerce, U. S. Department of Commerce (based on reports from the office of the commercial attaché in Berlin) stated: "The need for this equipment is apparent when one considers that in the autumn of 1938, when the volume of German railway transportation exceeded that of 1929 by 10 per cent, the Reichsbahn had 4,000 locomotives and 80,000 freight cars less in operation than in 1929." *Foreign Railway News*, December 20, 1939, vol. 15, special issue, p. 9. *Cf.*, also, *Halbjahrsberichte zur Wirtschaftslage, Schriften des Instituts für Konjunkturforschung*, 1939/40, Heft 1, May 26, 1939.

LICENSED TO UNZ.ORG
ELECTRONIC REPRODUCTION PROHIBITED

a railway loan of 500 million RM—the first major episode in borrowing by either government or railways after the outbreak of actual hostilities in the new general war.[131] For the condition that must be repaired, if that is presently possible, the Reichsbahn is hardly to blame. Nor does the ideal of autonomous provision of capital stand indicted because, in a frame so extraordinary, it failed the magnificent property that it was to serve. Clearly, such an ideal works no magic.

The nature of the financial structure of the Reichsbahn may be summarized in conclusion by two tabulations which show, respectively, its liabilities (Table A) and its assets (Table B) as of December 31, 1938.[132]

c. *Income, Profit and Loss, and the Nature of Contributions to the General Treasury.* The law of August 30, 1924 required that the incorporated railway system present annually a balance sheet, a statement of income, and a statement of profit or loss. The practice has continued. Even in times of relative candor, no doubt, such statements are apt to contain some cryptic features.[133] Neither profit nor insolvency is simple. It would be strange if the statements from the Reichsbahn in recent years did not present points of difficulty.[134]

Having put its house in order in 1923-24, the Reichsbahn showed operating profits in the business years from 1925 to

[131] The correspondent of *The New York Times*, O. D. Tolischus, in the issue of November 3, 1939, indicated that, despite the dedication of the loan to railway needs, it might be used in part to "consolidate" the government's pressing short-term credits.

[132] "Geschäftsbericht der Deutschen Reichsbahn, Jan. 1 – Dec. 31, 1938", *Die Reichsbahn*, May 17-24, 1939.

[133] Angell remarked in 1929: "In ordinary German business practice the published balance sheet is regarded as being just as appropriate a field for the exercise of executive policy as any other part of the company's activities. The management submits only what it thinks is proper for the stockholders and the general public to know, and its presentation often has little to do with the real state of the facts. This is not regarded as an immoral deception; it is the customary convention, and dates back to the origins of incorporated business itself in Germany." *The Recovery of Germany*, p. 232.

[134] An explanation of the make-up of the profit and loss statement, etc., of the Reichsbahn, as matters stood a few years ago, is available in *Wirtschaftsführung und Finanzwesen der Deutschen Reichsbahn* (published by the management, Berlin, 1934).

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ELECTRONIC REPRODUCTION PROHIBITED

TABLE A

LIABILITIES OF THE REICHSBAHN

(as of December 31, 1938—in Reichsmarks)

CAPITAL STOCK (*Eigenkapital*) [a]		18,900,000,000.00
ADJUSTED VALUE OF PLANT, etc.		13,336,677,173.17
PREFERRED SHARES [b]		
Authorized	1,106,000,000.00	
Unissued	25,000,000.00	
		1,081,000,000.00
RESERVES		161,580,000.00
SPECIAL RESERVES		
Statutory Reserve [c]	386,313,799.23	
For the redemption of preferred shares	144,000,000.00	530,313,799.23
LOANS		
International 5½% loan of the German Reich of 1930	142,537,993.72	
4½% tax-exempt railway loan of 1931 [d]	157,626,200.00	
4½% railway treasury certificates, 1935 [e]	150,000,000.00	
4½% railway treasury certificates, 1936 [f]	500,000,000.00	
Credits for construction work	492,677,700.08	
Assumption of debt of former Austrian state	360,534,051.96	1,803,375,945.76
OTHER OBLIGATIONS		514,748,733.30
ACCOUNTS IN PROCESS OF SETTLEMENT (see contra)		424,261,527.87
GUARANTIES [g]	90,683,429.89	
BALANCE carried forward to next fiscal year		11,459,628.85
		36,763,416,808.18

[a] When the Reichsbahn was created a "separate property" of the Reich, its capital stock was valued at 17 billion RM. In 1938 the capital stock was increased by 1.9 billion, representing additions for the Austrian railway net (1.2 billion) and that of the Sudeten (0.7 billion).

[b] Preferred shares were issued as follows:

(1) to the Reich in 1925, 500 million GM at 7% Series I (no counter-value received), and 124 million GM at 7% Series II; in 1926, 107 million GM at 7% Series III.

(The Reich has disposed of fairly large amounts of these issues to public and private insurance companies, subject to the proviso that they must not be re-sold to third parties.)

(2) for sale to the public in 1926, 150 million GM Series IV; in 1928, 225 million GM Series V (of Series V, 25 million still unissued).

[c] Statutory Reserve: two per cent of gross receipts from operation are annually paid into this fund, the practice having been laid down originally by the law of August 30, 1924, par. 25, sec. 2. In accordance with par. 13, sec. 1, of the law of July 4, 1939, it is an equalization fund which purports to meet any falling off in the operating income of the Reichsbahn.

[d] Due September 30, 1941. [e] Due September 1, 1941.

[f] Due January 2, 1944. Of the amount raised, 400 million RM went to the *Reichsautobahnen*, for the development of express highways.

[g] For the financing of the housing program.

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ELECTRONIC REPRODUCTION PROHIBITED

TABLE B

ASSETS OF THE REICHSBAHN

(as of December 31, 1938—in Reichsmarks)

WAY, STRUCTURES and EQUIPMENT as of December 31, 1937	29,555,310,601.71	
ADDITIONS and BETTERMENTS during 1938 [a]	5,149,004,565.45	34,704,315,167.16
INVESTMENTS		26,800,000.00
INVENTORIES		218,956,934.72
CURRENT ASSETS		
Cash	26,705,952.06	
Bank balances	314,340,820.02	
Checks in course of collection	26,861,233.02	
Securities	4,274,012.46	
Drafts	237,867,681.65	
Traffic balances receivable	15,220,585.68	
Current debtors	219,108,715.65	844,379,000.54
DEFERRED ASSETS against Reichsautobahnen		
Claim arising out of issuance of 4½% Reichsbahn treasury certificates of 1936	400,000,000.00	
Other claims	50,000,000.00	450,000,000.00
OTHER DEFERRED ASSETS [b]		95,023,397.26
ACCOUNTS IN PROCESS OF SETTLEMENT (see contra)		423,942,308.50
		36,763,416,808.18

[a] During 1938, in addition to the railways of Austria and the Sudeten, the Reichsbahn acquired the Lübeck-Büchener Railway, the Brunswick State Railway, and the local railway in Munich.

[b] To a large extent, investments in the *Mittlere-Isar AG* and *Walchensee-werk AG*—both for the production of power.

1929.[135] In 1930, the earnings, which had been 5.4 billion RM in 1929, fell to 4.6; they were 3.8 in 1931 and 2.9 in 1932. The recession of income was checked in 1933, but the operating coefficient was 104.66, yielding an operating deficit of 136 millions. The coefficient dropped to 99.28 in the business year 1934, to 95.75 in 1935, and to 88.16 in 1936. It was 90.6 in

[135] Dorpmüller lists the operating profits (after deducting reparation payments, which increased as the Dawes Plan came into full operation), as follows: 1925, 361.5 million RM; 1926, 285.9; 1927, 290; 1928, 206.5; 1929, 201.0. In 1929 the operating coefficient was 83.93. "Die Deutsche Reichseisenbahn 1918-1936", p. 37.

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1937. Meanwhile gross receipts had risen from 2.9 billion RM in 1932 to 4.4 billion RM in 1937, a jump of 50 per cent, but far short of the increase in the physical volume of business.[136] During these years of recovery, earnings could be claimed—24 million RM in 1934, and 152.2 million RM in 1935—but only by dint of drawing on reserves to the amount of 127 million RM and 26.5 million RM in these two years, respectively. The earnings were 471.8 million RM in 1936, 295.3 in 1937, and 252.1 in 1938.

In very recent years contributions to the general treasury have been governed by a formula anticipated under the law of 1937 and perfected in the law of July 4, 1939. Its basis was empirical; it generalized upon a practical judgment regarding the normal revenue of the Reichsbahn. Proceeding on the assumption that a total operating income of 4.6 billion RM might ordinarily be expected, after the absorption of the Austrian, Sudeten and Memel lines, the law of 1939 provided that 3 per cent of this amount—and in no case less than 100 million RM annually—should be paid to the Reich. This was to be treated as an operating expense. In addition, it was provided that the contribution should be increased, or decreased, by 10 per cent of the amount by which the total income exceeded, or fell below, the stated level of 4.6 billion RM. Something like this formula was invoked in 1937 and 1938. In the latter year 3 per cent was paid on the first 4 billion RM; 9 per cent on the excess.

The setting for these contributions is shown in the accompanying tabular summary of the operating account in 1938 (Table C). The total operating income was 5,133,519,589 RM. A payment to the national treasury of 120 million RM was listed as an operating expense; it represented a payment of 3 per cent on 4 billion of revenue. Earnings from operations were set down as 252,070,667 RM. From this sum it was necessary to defray charges in respect of dividends and interest, to provide reserves, and also to make an additional payment to the general treasury. The distribution of the

[136] The reasons for the discrepancy will be examined in considering traffic and rates in the concluding installment of this article.

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ELECTRONIC REPRODUCTION PROHIBITED

TABLE C

OPERATING ACCOUNT OF THE REICHSBAHN FOR THE YEAR ENDED DECEMBER 31, 1938

(expressed in Reichsmarks)

REVENUE		
Passenger and baggage traffic	1,432,321,370.33	
Freight traffic	3,355,536,254.85	
Incidental	345,661,964.57	
		5,133,519,589.75
EXPENDITURE		
TRANSPORTATION		
Station and terminal service	1,462,087,232.87	
Locomotive service	806,994,376.72	
Train service	293,748,226.17	
Track watching service	123,960,538.88	
		2,686,790,374.64
MAINTENANCE		
Way and structures	670,101,710.33	
Equipment	569,047,277.79	
		1,239,148,988.12
RENEWALS		
Way and structures	575,417,420.00	
Equipment	260,092,140.00	
		835,509,560.00
PAYMENT TO THE NATIONAL TREASURY		120,000,000.00
EARNINGS FROM OPERATIONS		252,070,666.99

"earnings" for these and certain other purposes is shown in Table D. The amount there listed as the "additional payment to the national treasury"—73,385,337 RM—was calculated as 9 per cent of 815,392,642 RM, the latter being the excess within the Old Reich of operating income above 4 billion RM.

In connection with the problem of payments into the general treasury, note should be taken of a few estimates regarding the contributions made by the Reichsbahn to the Reich or on its behalf since 1924. These payments are sometimes termed "political". One phase has concerned reparations.[137] A

[137] Reparation payments ceased in practice in June 1931, when a moratorium was arranged. At Lausanne in 1932 it was agreed that Germany should be allowed to settle finally for 3 billion RM bonds delivered to the Bank for International Settlements. These were to pay five per cent interest and a one per cent sinking fund charge. They were not to be negotiated for at least three years, in order to allow the general situation and Germany's condition in particular to improve, and then they were not to be sold under 90 unless

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commentator, writing in 1938, estimated that the total participation of the railroad system in reparation payments had amounted to 5.6 billion RM.[138] Of this aggregate, 4.5 billion RM had been paid directly under the schemes of 1924 and 1930; 1.1 billions had been contributed indirectly through the transport tax. In view of the extent to which reparations were also to be met from the budget of the government proper, it was difficult, in the period from 1925 to 1931, to separate contributions which went to reparations from those which served general governmental purposes.

The commentator who has been cited estimated that apart from reparations the transport taxes had yielded 5 billion RM in the period down to 1936, relieving the general treasury to that extent.[139] During the period of depression after 1930 the deficits of the Reichsbahn precluded contributions; the management congratulated itself that it had been possible to avoid drawing on the general treasury.[140] As seen by the management, "political contributions" have a broad connotation. Thus a responsible spokesman of the railroad system asserted that in 1935 its "political" payments amounted to 500 million RM, or 13.9 per cent of the total operating income

the Bank, in its judgment, decided that the state of German economy warranted this step. The principal sum was the equivalent of $714,286,000, less than two annuities under the Young Plan. *Cf.* Mildred S. Wertheimer, "The Lausanne Reparation Settlement", *Foreign Policy Reports* (November 23, 1932), vol. 8, no. 19. The amount of the proposed final settlement was 2.2 per cent of the Allied demands in 1921. It will be recalled that the Dawes Plan, without fixing a total sum (though theoretically affirming the original demands), called for a standard annuity of 2.5 billion gold marks—the equivalent of $595,000,000. The importance of the Young Plan lay in the adjustment and fixation of the total to be taken—32 billion gold marks, the equivalent of $7,600,000,000, involving annuities of 1.9 billion gold marks over a period of thirty-seven years. As for the Lausanne agreement, only the transitional measures constituting part 2 became effective; the agreement itself was not ratified. *Cf.* Bank for International Settlements, *Fifth Annual Report*, April 1, 1934 – March 31, 1935 (Basle, May 1935), pp. 61-2.

138 Ministerialdirektor Prang, "Gegenwartsfragen der Finanzpolitik der Deutschen Reichsbahn", *Die Reichsbahn*, April 6, 1938, pp. 348 *et seq.*

139 *Ibid.*

140 Dorpmüller, *loc. cit.*, p. 38.

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TABLE D

DISTRIBUTION OF THE REICHSBAHN'S EARNINGS FROM OPERATIONS FOR THE YEAR ENDED DECEMBER 31, 1938 [a]

(expressed in Reichsmarks)

CREDITS		
Balance carried forward from 1937	8,144,679.54	
Earnings from operations	252,070,666.99	
Other income	111,690,169.14	
		371,905,515.67
DEBITS		
Charges in respect of dividends [b]	75,933,767.39	
Charges in respect of credits	66,270,970.37	
Appropriation to the Reserve for the Foreign Exchange Adjustment Account [c]	12,547,958.36	
Appropriation to the Reserve for the Redemption of Preferred Shares [d]	36,000,000.00	
Appropriation to Statutory Reserve	96,307,852.85	
Additional payment to the national treasury	73,385,337.85	
Surplus carried forward to next year	11,459,628.85	
		371,905,515.67

[a] "Geschäftsbericht der Deutschen Reichsbahn, Jan. 1 – Dec. 31, 1938", *Die Reichsbahn*, May 17-24, 1939.

[b] Pursuant to the recognition of the Reichsbahn as a "separate property" of the Reich under the laws of 1937 and 1939, dividends on preferred shares are treated like interest on other credits.

[c] In explanation of this item, it is necessary to call attention to a law of December 23, 1936 (*RGBl* I, p. 1126) dealing with "profits made through devaluated foreign currencies". This seizes profits made on obligations payable in foreign currencies on the basis of the exchange value of the reichsmark and the foreign currency at the time of the discharge of the obligation. Under the first ordinance executing this law, the debtor may retain 25 per cent of such profits. The new valuation of credits obtained by the Reichsbahn in connection with the international loan of 1930 and certain minor obligations held in foreign countries yielded it a profit of 119.3 million RM. A reserve has been set aside to meet the liability created by the law in favor of the Reich.

[d] The setting aside of 36 million RM annually toward the reserve for the redemption of preferred shares is a statutory requirement.

of the year.[141] This total included the fixed annual contribution of 70 million RM,[142] a dividend of 35 million RM on the preferred shares which had been assigned to the general government without payment,[143] pension charges of 160 million

[141] *Ibid.*, p. 39. The corresponding sum for 1936 was estimated at 663 million RM; for 1937, 757 million RM. *Archiv für Eisenbahnwesen*, July-August 1938, p. 898.

[142] After the Lausanne agreement abolished the reparation tax of 660 million RM annually, the Reich exacted from the Reichsbahn the fixed sum of 70 million RM, which was collected in the years 1932 to 1936 inclusive.

[143] *Cf. supra*, note 118 and p. 37.

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RM traceable to excess personnel at a prior stage and regarded as a political necessity, the transport tax, and expenses due to changes in boundaries. In addition, it was said, services were rendered in behalf of the policies of the general government, outside of the business sphere of the Reichsbahn, amounting to 100 million RM. In the face of these circumstances, it is impossible to calculate "profit" in any ordinary sense, accruing to the Reich as owner of the gigantic property involved in the railway network and its subsidiaries and ramifications.[144]

d. *Accounting.* The preceding discussion has anticipated and given point to the question of accounting methods. For some decades there has been discussion in all countries regarding the need to adapt the customary modern methods of governmental accountancy in order to suit them to the conduct of public undertakings of an economic nature. Traditional governmental bookkeeping has drawn its inspiration from the fundamental notion of budgetary responsibility. Its transcendent purpose has been to see that receipts reached the treasury and that moneys were paid out only in accordance with law within limited fiscal periods. Legality, not profitableness, has been the cynosure of state accounting. Commercial bookkeeping, on the other hand, has not always been revealing but, in terms of its own ideals, it has sought to disclose to those who had reason to know two sets of facts: profit, matching income against expenditure, preferably for each type of transaction as well as for the operations as a whole; and total worth, including not only physical inventories but the over-all reckoning of a capitalistic calculus. The two forms of accounting—cameralistic and commercial—were thus sharply contrasted. The discussion of their respective defects and advantages was stimulated by the tightening of administrative reform, on the one hand, and, on the other, by the scale and pace of public enterprise. In no country, probably, were the contrast of the methods of bookkeeping and the need for adaptation of the cameralistic system more discussed than

[144] According to Napp-Zinn, the "return" on the capital was 4.9 per cent in 1929. "Die Deutsche Reichsbahn-Gesellschaft", p. 348. The corresponding percentage in 1938 appeared to be smaller.

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in Germany, particularly during the period of the Weimar constitution.[145]

As applied to the railroads, criticism of the suitability of existing accounting methods had been frequently heard during the time of ownership by the states.[146] The schemes in use were exact but essentially cameralistic. In some states supplementary records were maintained but, with mounting incomes, these were generally regarded as superfluous. The state railroad managements and the state fiscal officers, however, were not wholly oblivious to the problem. Mention has already been made of the balance sheet and profit and loss statement which Prussia introduced for its state railways on the eve of the World War.[147]

The circumstances which attended the railroad law of August 30, 1924 made it natural that certain features of commercial bookkeeping should be required.[148] This emphasis has had a lasting effect. The form of accounting of the Reichsbahn is within its own control. Certain commercial usages are studiously followed or adapted. The underlying bookkeeping process, being still essentially that of the Prussian state railways, is more properly to be described as a modified and refined governmental scheme than a strictly commercial one.[149] But whatever the form, the spirit of the method is not cameralistic.

A superimposed improvement of outstanding interest has been the development by the Reichsbahn of three types of cost accounting. The first is related to the emphasis which is placed upon geographical decentralization in management. Accounting in terms of railway districts was begun in 1926.

[145] Illustratively, mention may be made of one of the series of *Lehrbücher für Verwaltungsschulen* given out by the Prussian *Städtetag:* A. Brendle and H. Dassel, *Die kaufmännische Buchführung in den wirtschaftlichen Einrichtungen der Gemeinden* (Mannheim, Berlin and Leipzig, 1931).

[146] Conrad, "Zur finanzwirtschaftlichen Selbständigkeit der Deutschen Reichsbahn", pp. 749 *et seq.*

[147] *Cf. supra*, p. 28.

[148] The discussion of this matter at the time of unification is illustrated in Leopold Mayer, "Eisenbahnbilanzen und Eisenbahnwirtschaft", *Zeitschrift für Verkehrswissenschaft*, 8. Jahrgang, Heft 1, 1930.

[149] Conrad, *loc. cit.*, p. 754.

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An attempt was made to maintain figures which would permit the drawing up of a balance sheet and the presentation of a profit and loss statement for each district, thus facilitating comparisons and even a bit of managerial competition. In 1936, however, the scheme was suspended because of the administrative expense that it involved.[150] A second development has been the application of cost analysis to the operations of the Reichsbahn generally.[151] In this way it has been possible, for example, to compare various types of motive power or to say whether a certain fast train was paying or not. A third extension of the principle of costing has been the self-contained accounting of the workshops. They have been treated virtually as autonomous factories, their finances being kept separate from those of the districts that they serve.

e. *Audit.* In connection with public enterprise, the problem of auditing methods is a double one. On the one hand are issues which involve all types of governmental activity. Outstanding is the question of the demarcation of the appropriate spheres for financial control, which is properly a phase of administrative command, and of audit, which has been conceived of as an aspect of legislative oversight.[152] On the other hand, public enterprise presents special difficulties which result from its peculiar need for flexibility.[153] The extreme solution is to allow an autonomous public enterprise to have itself audited by a private certified accountant of its own choosing. But this is hardly an ideal. It seems sound to envisage the possibility of forms of public accountability which will accommodate themselves to the nature and needs of public enterprise.

In the case of the railroads, the partial independence from the general government so studiously safeguarded by the act

[150] *Ibid.*, p. 755 n. 1.

[151] Dr. Ing. Remy-Köln, "Vier Jahre nationalsozialistische Reichsbahnarbeit am deutschen Verkehr", *Zeitschrift für Verkehrswissenschaft*, 14. Jahrgang, Heft 2, 1937.

[152] Harvey C. Mansfield, *The Comptroller General* (New Haven, 1939).

[153] John McDiarmid, *Government Corporations and Federal Funds; cf.*, also, Mansfield, *op. cit.*, pp. 225-44.

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of August 30, 1924 expressly put the company beyond the reach of the Court of Audit (*Rechnungshof*).[154] A special examining service was created within the railway system. In its essentials, this device has survived.[155] The service consists of a head examining office and district examining offices. The head examiner is appointed by the minister of transport, in consultation with the minister of finance and the president of the Court of Audit. The minister of transport appoints the members of the staff, upon recommendation of the head examiner and again in consultation with the minister of finance. To this service are recruited the most competent men available in the railway departments; thorough knowledge of railway affairs is a prerequisite. Auditors must be over 35 years of age and not more than 50 when appointed. Family relationship to head examiners is a bar to appointment. The process of examination itself is largely concentrated in the operating districts. The position of the auditor is a delicate one, for he is at once a colleague and a checker. The examination is partly one of audit; partly it is a critique from the standpoint of efficiency. If the head examining office is dissatisfied with a decision of the minister of transport, it may appeal to the minister of finance who decides the matter, after having heard his colleague and the president of the Court of Audit. Disciplinary measures against members of the head examining office can be taken only with the consent of the minister of finance.[156]

In addition, the statutes under which the autonomy of the railways was developed retained a right of inspection for the

[154] Incidentally, it may be remarked that although members of the *Rechnungshof* are still protected by law as respects temporary or permanent removal from office, retirement or discipline, a law of June 17, 1936 (*RGBl* II, p. 209) permits their transfer to other positions and has perhaps weakened the independence of the *Rechnungshof*.

[155] Auditing Order for the German Railways (*Rechnungsprüfungsordnung für die Deutsche Reichsbahn*) of July 11, 1939. *Die Reichsbahn*, July 19-26, 1939, p. 727.

[156] *Cf.*, for the period preceding the Auditing Order of July 11, 1939, Weirauch, "Der Prüfungsdienst bei der Deutschen Reichsbahn", *Archiv für Eisenbahnwesen*, January-February 1937, pp. 23 *et seq.*

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government in regard to certain major records.[157] The government, which was free to choose its agent in this matter, utilized the *Rechnungshof* until 1931. Objections were voiced on the ground of dualism. In 1931 an informal arrangement was concluded between the ministers of transport and of finance whereby the annual inspection is made by the head of the *Rechnungshof,* acting personally, and the head of the Audit and Trust Company (*Revision- und Treuhandgesellschaft*),[158] a public institution. The annual business report is now prepared by the head examining bureau of the Reichsbahn, signed by the minister of transport, and submitted to the minister of finance, with an opinion of the president of the Court of Audit appended.*

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[157] The law of August 30, 1924, par. 30, sec. 2, stipulated that "the government shall have the right to examine the company's balance sheet and profit and loss account at any time, to inspect all such books of account concerning the balance sheet and profit and loss account as are kept at the main office of the company and to call for all necessary information, provided that no special expenditure is thereby entailed on the company."

[158] Weirauch, *loc. cit.*, p. 39.

* Acknowledgment is made of the assistance of Dr. Ludwig Homberger, formerly a director of the Reichsbahn in charge of the financial department, now lecturer on transportation in the Graduate School of The American University, Washington, D. C., in scrutinizing the proofs of this article.

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HOPES AND FEARS OF AN AMERICAN-GERMAN WAR, 1870-1915 II

II

"MILITARY Operations Overseas" had presented few problems to the Prussian General Staff either under Moltke, who had called military landings and operations with landed troops enterprises of secondary importance, or under his first successor, Waldersee. Having prepared, in more than one sense of the word, for the war with Russia, Waldersee was himself to be at the head of the first large-scale German expedition overseas, that against the Boxers; nothing, however, was ready for this enterprise which, contrary to the proverbial Prussian niggardliness in military expenditure, proved so very wasteful that the Germans after the close of the Rebellion insisted on high Chinese reparations in order to cover the outlay.[48]

It was German *Weltpolitik* that involved officers in such tasks overseas, and their discussions are in large part the accompaniment of German imperialism under Wilhelm II. The Emperor himself, for example, during the critical hours preceding the actual dispatch of the telegram for Kruger, proposed to mobilize the German marines and send them to South Africa to assist the Boers, without pondering the question of how to get those marines past England and her naval stations.[49] Anglo-German estrangement now made a German landing in England a military problem. It was so eagerly seized upon

[48] Alfred Vagts, *Deutschland und die Vereinigten Staaten in der Weltpolitik*, pp. 1094-5.

[49] See Friedrich Thimme's article on the Kruger dispatch in *Europäische Gespräche*, 1924, pp. 218, 230 in particular. Salisbury in 1897 established, in his own thinking, a *junctim* between a Transvaal war and German operations overseas by pointing out to Joseph Chamberlain that such a war "might mean the necessity of protecting the Northeast of England [against Germany] as well as the South against the French." James L. Garvin, *The Life of Joseph Chamberlain* (London, 1932-34), vol. III, p. 141.

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and discussed, openly or behind closed doors, by the Pan-Germans and officers inclined toward Pan-Germanism, that the result was a deepening of the estrangement. The issue became a particularly envenomed part of Anglophobia in Germany and Germanophobia in England, a preferred subject with alarmist groups in the two countries. As far as wider public discussion was concerned, the Germans raised this *Schreckbild* first, although it had appeared in England as early as 1871 in "The Battle of Dorking", which was supposed to take place in 1875;[50] and it was countered by Arthur Lee and Lord John Fisher with his proposal "to 'Copenhagen' the German fleet at Kiel à la Nelson."[51]

In the more technical aspects, this discussion of operations overseas was carried on by army officers, a few of whom clearly attempted to answer the question which the navy men had largely left open: After sea power, what?[52] The economic motivation of the new navies, which assisted the several naval services to obtain ships from the parliaments of the world, is clear enough. But what did those who wanted and granted the ships expect them to do and achieve in war? Was sea power,

[50] "The Battle of Dorking" appeared first in *Blackwood's Magazine* in the summer of 1871, at a time when the German Crown Prince and his English wife were visiting England. Impressed by the late German victories, the author, a Colonel Chesney, who remained anonymous for some time, told the story of how England, in 1875, would be induced by an insurrection of the natives in India, disturbances in Ireland, and a conflict with the United States threatening Canadian security, to employ her navy and standing army far from her own shores; in spite of this dangerous position England, on account of a quarrel with Germany over Denmark, would declare war on Germany. The latter would land an army in England which would conquer the remaining parts of the British army and the Volunteers, who would join it at Dorking, and would force upon England a disastrous peace.

[51] See for these invasion alarms Eckart Kehr, *Schlachtflottenbau und Parteipolitik, 1894-1901*, pp. 354 *et seq.*

[52] Mahan wrote a letter to President Roosevelt (Jan. 10, 1907), protesting against placing four of the best American battleships in the Pacific: "I apprehend, should war with Japan come before the Panama Canal is finished, the Philippines and Hawaii might fall before we could get there; but, had we our whole fleet in hand, all could be achieved. Between us and Japan, any hostilities must depend on sea power. Invasion in force is possible to neither." (Library of Congress.) But what would have to be done if one side or the other did not react to sea power, to a mere defeat on the sea?

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perhaps, on the civilian side, the expression of the hope of the middle classes (always excepting those who had been dedicated *à fonds perdu* to sea power even in peace time) that the next war would thereby be kept from becoming a totalitarian war,[53] and that, instead, it would be a war decided on the seas with the least possible damage to property and lives?[54] Such a war would be waged with the limited means—limited in relation to the total resources of the nations—at the disposal of the naval services on its eve. Were the navies, then, to be the instruments for fighting the conflicts of the nations in the manner of a medieval ordeal? If so, the strategy of modern sea warfare would not have amounted to a *Vernichtungsstrategie,* the strategy of destruction, nor even to an *Ermattungsstrategie,* the strategy of wearing out the enemy, to use Hans Delbrück's terms, but merely to a token strategy. It would have been the strategy of a society which hoped to go through war as it had gone through certain risky capitalist enterprises—the strategy of limited liability. Instead, the war that finally came turned out to be one of unlimited liability.

So much for the civilian concept of the strategy of the future naval war. Considering the division of labor running through pre-war society, even in politics, it need not cause surprise that this concept will hardly be found expressed on paper by civilians, who, after all, contributed little to maritime or military literature. But it is this doubt that underlies Nietzsche's criticism of the nihilism of his time, so much of which expressed

[53] For such tendencies see Charles Buxton, *The Limitations of the Severity in War,* Cambridge Essays, 1855.

[54] Practically nothing has yet been done toward a sociology of the officers or the crews of the pre-war navies. That leaves unanswered questions like the following, highly important for the societal interpretation of sea strategy: From which groups in pre-war society did the officers come? With special reference to England and Germany, how many officers came from the gentry or nobility? Was this percentage increasing or decreasing? What was the proportion of noble officers in the commanding positions? Was it increasing or not? From which groups did the sailors come? It is probably safe to say that they were far more foreign to the parliamentarians, who voted the naval budgets, than the officers were. Nowhere, of course, was the connection between parliamentarians and officers so close as in the United States where the latter were practically selected from the constituents of the former.

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itself in power politics. "All political questions, among others in the relationship of parties, even of mercantile, or labor, or entrepreneur parties, are concerned only with *questions of power*—'what one *can* do,' and only after that what one *ought* to do." [55] The Tirpitz strategy of the "Risiko fleet" did not contradict this largely subconscious civilian concept, and was no whit less unrealistic. It conceived of a German fleet so strong that it would be too risky for *the* enemy (which, as became rapidly evident, was Great Britain) to attack it; and it assumed that, if the biggest navy should attack the "Risiko fleet", it would, through the losses which this necessarily involved, be at the mercy of the other naval Powers. This political-strategic concept chose to overlook the fact that Britain's diplomacy—in the Foreign Office as well as the Admiralty—had taken care that Britain's navy should have arrayed against it no other enemy with a fleet, save Germany, when it came to the Anglo-German war in 1914.

Some of the discussions of this question—After sea power, what?—were of an academic character, a military-academic character so to speak; [56] some were quite politically conceived or conditioned, as in the case of certain German army officers, notably Captain Baron von Lüttwitz, who had become imperialistic. Lüttwitz was the author of an article in 1896, eagerly seized upon by the British as a sign that Germany was becoming an enemy, in which he advocated a strong German navy as a way to acquire colonies in spite of Britain's resistance.[57]

[55] *Der Wille zur Macht*, p. 90.

[56] Rear Admiral H. C. Taylor, head of the Naval War College (to Captain Sigsbee, June 20, 1901), begs to have material sent on the question of "transportation of troops and armies generally by sea. . . . I want it for an army officer . . . who is to write a paper for the War College on transporting troops." There was not much literature that Sigsbee could send him (*British Army Regulations*, 1895, and *Transportation by Sea and Landings*, 1898). Sigsbee to Taylor, June 26, 1901. National Archives.

[57] William L. Langer, *Diplomacy of Imperialism* (New York, 1935), p. 426. Lüttwitz had studied Mahan "to some purpose", as Captain William D. Puleston expresses it in *Mahan: The Life and Work of Captain Alfred Thayer Mahan* (New Haven, 1939), pp. 122-3; but Puleston overestimates by far the effect of the Lüttwitz article in Germany. (It was the same Lüttwitz, by the way, who was the military leader of the Kapp Putsch, one of the first open signs of the renascence of German imperialism after the World War.)

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To give the co-national navy its military sense and significance, the more politically tainted studies on "Operations Overseas" naturally came to the conclusion that such excursions were indeed feasible and could be undertaken with a good chance of success, whereas the more technical studies came to the contrary conclusion that "for the great continental states enterprises overseas [directed against them] attain more the character of a bogey than of a serious danger." [58]

In accordance with imperialist politics, as well as such actual experience as the China expedition, a considerable discussion of overseas operations was carried on in military and naval circles during the very first years of the new century.[59] While the navies built full steam ahead, some officers bothered their heads about such questions as "the strategical and tactical coöperation of army and navy"—the title of the German standard work on this problem by Lieutenant General von Janson (retired). According to Beehler, the American Naval Attaché in Berlin, this book was "read and studied by German Army and Navy officers and since the war with Spain has been the chief theme of study in the General Staff in Berlin. . . . The point considered to be absolutely essential, and the point upon which the Germans pride themselves as having in the person of their remarkably competent Emperor [is?] . . . That there must be one Commanding Officer endowed with supreme

[58] William Balck, *Taktik* (Berlin, 1898), pp. 360 *et seq.* He treats the problem "sea transport and landings" in a merely technical way, particularly as one of loading, but comes to the above conclusion which agrees almost literally with that by Colmar Freiherr von der Goltz in *Das Volk in Waffen* (3d ed. Berlin, 1884), p. 385: "Landings are therefore for a populous and militarily well organized state more bogeys than serious dangers." At a later time von der Goltz came to different conclusions. E. L. Woodward, *Great Britain and the German Navy* (Oxford, 1935), pp. 34 *et seq.* The *National Review*, March 1905, quoted from an article of his: "It would be a mistake to consider a landing in England as a chimera. The distance is short enough if an admiral of daring succeeds in securing supremacy on the sea for a short time."

[59] For an (incomplete) bibliography on the question see Louis von Scharfenort, *Quellenkunde der Kriegswissenschaften für den Zeitraum 1740-1910* (Berlin, 1910), pp. 43-4. There was an English work, by an army colonel, translated and used in France—G. A. Furse, *Expéditions militaires d'outre-mer: Traduit de l'anglais avec l'autorisation de l'auteur, et annoté par le colonel brevété Septans* (Paris, 1901).

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authority to successfully conduct combined [operations]. . . ." [60] The American naval officer stationed in Berlin not only was filled with so much awe of the Kaiser that it positively wrecked his style, but he also overlooked the portentous fact that the Emperor and his whims, more than anything else, stood forever in the way of a show-down between army and navy in Germany —in the way of a decision about the relative disposition of men and moneys between the two, as well as the actual supreme command in time of war. The function of the Kaiser as *Oberster Kriegsherr* in war time was a merely formal one, worse than that in peace.

The growing hostility between the United States and Germany, in particular between the two navies, led the *Reichsmarineamt* after 1899 to discuss the question: "Which points on the Atlantic and the Gulf coasts of the United States, in the case of a warlike enterprise against the latter, would be best for points of support?" Some officers suggested Cape Cod as such a *point d'appui*; and after personal reconnoitering on the spot and along the New England coast, which he repeated in 1901,[61] Kapitän-Leutnant von Rebeur-Paschwitz, the first naval attaché that Germany had placed in the United States (since the early weeks of the Spanish-American War), agreed with them. Opinions on this occasion were divided, however, as to whether "an attack should proceed better from the South or from the North," though apparently no military help seems to have been contemplated on this occasion. The navy was to do it all.

As to what should be done "after the main purpose, the destruction of the enemy's dominion of the sea," had been achieved, the attaché believed that there was only one way left

> to force the enemy to conclude peace—nothing but an energetic attack on the rich harbor cities of the East. If from any one point pressure is to be exerted on the directing authority, which will force it and therewith also the people to yield, this can only

[60] Beehler to the Navy Department, April 28, 1901, who submitted the second part of August von Janson's *Das strategische und taktische Zusammenwirken von Heer und Flotte.*

[61] Von Rebeur-Paschwitz to Sigsbee, June 17, 1901. National Archives.

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> be done at the commercial centers of the East, where, at least today, the weight of the commercial and industrial interest still rests. Expeditions far into the interior of the country would meet with great difficulties; occupying the nominal capital of Washington would make no impression, since neither trade nor commerce is of any importance there. A blockade, such as could still be undertaken with success during the Civil War against the Southern states, would today, considering the much more developed conditions of traffic, be impracticable for us, if the whole coast of the United States is in question. An attack on the West Indian possessions, Cuba and Puerto Rico, would at the utmost have an importance only for those [Americans] who are interested in commercial enterprises in those regions and who represent but a small number. Therefore, I can actually see a possibility of success, particularly if we refrain from the use of large masses of troops, in nothing but a merciless and ruthless [*schonungs- und rücksichtslos*] action against the commercial and industrial centers situated in the Northeast.

Boston and New York he considered as the two places that could be most easily attacked, much more easily than Philadelphia and Baltimore, since the latter cities were situated up-river.[62]

Clearly, the representative of the *Reichsmarine* in the United States had convinced himself, and perhaps other officers in his department, that the powers which in the McKinley era largely determined American politics in peace time, namely, commerce and industry, would be equally determinative in war. Equally obvious is the reliance of the German navy upon its own strength; in urging abstention "from the use of large

[62] Von Rebeur-Paschwitz to *Staatssekretär des RMA*. Tirpitz, Jan. 26, 1900. Secret. With the remark on the copy of the Auswärtiges Amt "Original an S[eine] M[ajestät]." Archives of the Auswärtiges Amt. See also Vagts, *Deutschland und die Vereinigten Staaten*, p. 1393. The writer secured this document during studies in the Wilhelmstrasse archives and had hopes at the time that by obtaining access to the archives of the quondam *Reichsmarineamt* he might be able to determine what were the more detailed and authoritative intentions of the German navy with respect to the United States. The Auswärtiges Amt must have considered it as deserving some attention, for the reason that they retained a copy, which was not usually done with the reports of the military and naval attachés that passed through.

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masses of troops," von Rebeur-Paschwitz voiced the hope of the navy to make war upon the United States and force a peace by its action alone, without the help of the army. This conviction or hope was part of the more discreetly than openly debated problem of whether the navy could fight through to the end any autonomous battle problem [63]— a question which deeply involved the whole curious existence of a "Risiko fleet". Was it designed for fighting at all? Or was it not conceived more for the purpose of existing — in spite of Britain's supremacy—than of fighting? At any rate, the plan was contagious, for it influenced British strategy deeply enough at Jutland, when Jellicoe refrained from the ultimate risk of using the remaining battleships of his fleet.

It is certainly no reflection upon the military judgment of German diplomats that the head of the embassy in Washington at the time, von Holleben, the temporary and formal superior of von Rebeur-Paschwitz, viewed an American-German war far less lightly and confidently than his subordinate. Discoursing at great length on the anti-German sentiment in the United States after the War of 1898, von Holleben, it is true, thought war between the two countries not at all unlikely:

> Only once before, on the occasion of the first great Samoan conflict, has there been serious talk of a war between Germany and the United States. Today the possibility of such a war lies much nearer, and it will be a good thing to keep this possibility in mind in all our intercourse with the United States. It is obvious that a real gain would not accrue to the United States out of such a war, even if it should bring them a complete victory. . . . A successful attack on our coast is unthinkable. But America knows very well that Germany is actually the preponderating power [*Vormacht*] of European civilization. Besides, Germany alone in Europe stands on the footing of an intact martial glory. These ethical momenta are exactly what is tempting for America in order to inflict a wound on Germany and with it on deeply hated Europe.[64] Spain was merely a

[63] Kehr, *op. cit.*, p. 357.

[64] Von Holleben as an *enragé* Wagnerian was a member of that European *Geistes- und Geburtsaristokratie* which gathered at Bayreuth every summer.

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> *corpus vile,* though on the other hand in the war with Spain great material interests were involved. A war with Germany would be something more like a sport; it would cost money, perhaps plenty of money, but that would not matter as compared with the moral advantage of playing a trick on the ideologues and the world's schoolmaster and tarnishing the glory of the victor of 1870.

In such a war, however, a war at sea, both navies, about equally strong, would suffer about equal losses, perhaps Germany a little less, "but America, with its colossal capital power [*Kapitalskraft*], would be superior with respect to the speed of supplementing its *matériel.*" German trade would suffer considerably more, since the American trade was carried almost entirely under foreign flags. Germany's navy would have few points of attack and would soon have even fewer of them since the Atlantic coast of the United States was being fortified.

> The whole thing would be a war without a valuable bone of contention [*Streitgegenstand*] and, since our land army could not take any decisive action in it, would be without any conceivable end. . . . And besides all this presupposes that none of our European neighbors makes use of the occasion in order to settle old bills with us. That we should find an ally against the United States is very unlikely.[65]

Ambassador and attaché in the German Embassy at Washington, it thus appears, then stood in much the same relation as in the fateful years 1914-1917, and they judged the chances of an American-German war in much the same manner, von Holleben and von Rebeur-Paschwitz paralleling Bernstorff and Boy-Ed.

Those who wanted to give this new German navy a more immediate sense and function than even Tirpitz, its founder, therefore, talked of its rôle in carrying a war overseas—officers as well as civilians with Pan-German, and that meant anti-English, inclinations. Early in 1900, the American Naval Attaché at Berlin, Beehler, was "reliably informed" that at a recent meeting of leaders in the German Naval League "the

[65] Memorandum of von Holleben, Washington, June 1899. Archives of the Aus. Amt.

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question of transporting and landing a German Army was seriously discussed by them with a view of ascertaining the possibility of successfuly carrying out any such plans." He was told "that by using the available German merchant steamers and having a fleet that could command for a period of 48 hours a part of the North Sea, the Germans can land an army of 35,000 men on the east or northeast coast of Great Britain at comparatively unfortified points, but that on account of the defenses on the south coast of England such a landing would not be practicable there." The American attaché also reported that German army and naval officers were "constantly studying this question and that cooperation [on an earlier occasion Beehler thought that von Diederichs had been entrusted with the task of directing this work of coöperation] is being diligently sought for."

As subsequent publications of such studies showed, the American was far from badly advised, even though he had to admit that he was not able to say "how this is being accomplished," [66] and he was scarcely aware—at least not consciously—of the deeper significance of these eager studies. But unconsciously he betrayed how much he, as a naval officer, was taking sides in this professional endeavor when he transmitted the Austrian contribution to this discussion—a pamphlet called *Die Meeresbeherrschung,* "a publication on the lines of Mahan's sea power" and "of value in emphasizing the need of Navy and army cooperation," which "throws some light on the subject that is now becoming of paramount importance." [67] The slip of the pen — Navy and army — indicates the professional struggle of those years: which of the two forces was to rank above the other in time of war and, consequently, also in time

[66] Beehler to the Navy Department, Confidential, Jan. 13, 1900, with notice "To Secretary of Navy, Feb. 9". (Nat'l Archives.) On February 21, 1900, Beehler submitted a copy of Janson's *Das strategische und taktische Zusammenwirken von Heer und Flotte,* which had just been published, and on March 8, 1900, the March issue of the *Marine-Rundschau,* "an official publication by the Admiralty Staff of the German Navy", with an "important description of the defenses of New York." Natl. Archives.

[67] Beehler to the Navy Department, March 17, 1900. Natl. Archives.

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of peace, in the size of budgets, and more specifically, in the case of their coöperation in war.

On the basis of the materials at our disposal, it cannot be decided how near German naval officers and their directors believed war with the United States to be at that or any other time. It cannot be known how much their discussions were merely a part of the usual German plan-making for all possibilities of war, even non-German wars included,[68] except the one that was eventually to come about—an American landing in Europe. For this Tirpitz' officers were not prepared.[69] But there was so much hostility between the United States and Germany, especially when American officers came back from the German autumn maneuvers of 1900, "greatly impressed with the evident intention of the German military classes to take a fall out of us when the opportunity offers," [70] that the officers were not at a loss for political reasons to study the problem of an American-German war. In fact, the political motivation and reasoning were so strong as to make German officers who worked on the problem overlook some of the technical difficulties of the business; they also simplified it so much as to forget completely that, under the conditions of world politics at the time, an American-German war could not remain a two-sided affair even for a week.

From such simplified assumptions a temporary member of the great General Staff in Berlin proceeded to study—and, much to the rage of Schlieffen, publish—the problem of an American-German war. Baron von Edelsheim, a first lieutenant in the Second Regiment of Guard Uhlans, somewhat younger than Ludendorff, justified his study by pointing to

[68] Wilhelm II said to Balfour on one occasion: "Whenever war occurs in any part of the world, we in Germany sit down, and we make a plan." (Nov. 22, 1899.) Blanche E. C. Dugdale, *Arthur James Balfour* (New York, 1937), vol. I, p. 291.

[69] Arthur Rosenberg, *Die Entstehung der deutschen Republik, 1871-1918* (Berlin, 1928), pp. 133 *et seq.*, 276. The successor of Tirpitz, von Capelle, thought that the danger of America sending troops over to Europe was "zero, zero, zero."

[70] *Selections from the Correspondence of Theodore Roosevelt and Henry Cabot Lodge, 1884-1918*, vol. I, p. 484.

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the frictions that had occurred of late between the two nations, "largely commercially caused, which up to now have mostly been removed by yielding on our part." (The lieutenant echoes the Agrarian reasoning in the Reichstag as far as it was directed at the German industrial element for tariff log-rolling purposes. To use the opposites of Professor Sombart: the *Held,* the soldier, automatically finds the war-causation in the doings of the *Händler,* the trader, and not in those of the Agrarian or the Services.) "Since this yielding has its limits, however, the question arises, which means of power we can apply in such a case in order to fight such encroachments of the United States on our interests or to impose our will with force." [71]

For von Edelsheim the landing operations which he contemplated against the United States were a modification of operations against England, to which the larger part of his study was devoted; it duly included plans for an insurrection among the Irish. At the same time, he used them to illustrate the supremacy of the army over the navy, even in overseas operations, for in von Edelsheim's scheme an army officer would assume command in the very case that von Rebeur-Paschwitz had earlier thought the navy could see through by itself. In such a war "the powers of our army are also to be made visible and tangible, even overseas, to such states as, in the idea of their inaccessibility, have considered Germany a state less to be considered." These haughty states were, of course, England and the United States.

Contrary to von Rebeur-Paschwitz, whose reports he may have seen, von Edelsheim was realistic enough not to suppose that a defeat on the seas and the bombardment of sea-coast cities alone would suffice to bring about a victorious peace. Rather was he convinced that such a war had to be undertaken from the outset by a combined action of land and sea forces. Operations of the expeditionary force into the far interior in order to break American resistance seemed out of the question,

[71] *Operationen über See: Eine Studie von Freiherr von Edelsheim* (Berlin, 1901). Schlieffen's dissatisfaction with the publication appears from documents in the Wilhelmstrasse archives.

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considering the vast extent of the United States. "There is, however, a reasonable hope that victorious enterprises along the Atlantic coast, a cutting off of the most important veins of export and import will create in the whole country such an oppressive situation that the government will readily agree to acceptable conditions in order to obtain peace."

The guarantee of German victory was discovered by this army student of an American-German war to lie in the weakness of the American standing army; of its 65,000 men, he thought, only 20,000 would be available for a war in the East, since, besides the number required for other duties, 10,000 men alone would be necessary to guard the Indian territories.[72] (A Zimmermann telegram to the Redskins, with an offer to hand back their lands in return for assistance against the United States, might have been in order.) The militia he considered completely worthless. These weaknesses and the absence of any American mobilization plans for such a war would more than balance the circumstance that, on account of the time required for the crossing, such an expedition could not be made an absolute surprise; surprise could only enter with respect to the choice of a landing spot. Finally the author of this invasion plan remarked emphatically: "Germany is the only great Power able to attack the United States all by herself. For England might be able to fight through to a victorious end the attack on the seas, but it would not be in a position to protect its province, Canada, which would compensate the Americans for all defeats on the sea. None of the other great Powers, however, by itself has at its disposal the transportation fleet necessary to undertake such an operation"—a passage which did not fail to impress the Pan-Germans deeply.[73]

[72] At about the time of the publication of the von Edelsheim brochure, Theodore Roosevelt wrote to Henry Cabot Lodge (*Correspondence*, vol. I, p. 485): The Germans, "the only power which may be a menace to us in anything like the immediate future . . . at present, I know, count with absolute confidence upon our inability to assemble an army of thirty thousand men which would be in any way a match for a German army of the same size."

[73] *Deutsche Zeitung*, Oct. 27, 1901. Clipping in American files of the Auswärtiges Amt.

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Von Edelsheim's study aroused a good deal of alarm in England where it was used by naval and military circles and those close to them, like the *National Review,* almost as much and for the same reasons as the corresponding German circles employed the famous *Saturday Review* article of 1897.[74] In America, the danger conjured up by von Edelsheim seemed somewhat less realistic than in England. But here as well it did its bit to embitter relations with Germany which, as a comparatively neutral observer, Jules Cambon, wrote toward the end of 1901,

> are not bad. They are worse. . . . One is jealous, one knows that one fights on either side for the commercial supremacy of the world; there is no agreement possible in this field, and it suffices that some guard-lieutenant at Berlin occupies his leisure in organizing on paper an invasion of American territory by German troops to give a new growth of actuality to Admiral Dewey's saying that the first war of the United States would be with Germany.[75]

In the evident desire to mend some of the tender porcelain of good feeling the von Edelsheim brochure had smashed, *Der Tag,* a Berlin newspaper often used by the cooler heads of German bureaucracy, civilian or military, for the purpose of laying their considered thought before the public, came to the rescue. It printed an article on the first day of 1902 about the jingoistically overstated antagonism between Germany and the United States and the technical possibilities or impossibilities of war between the two Powers. It came to the rather sane conclusion

> that neither of the two parties could think of carrying the war into the national territory of the other. If England should maintain strict neutrality, neither the United States nor Germany, owing to the lack of coaling stations on the Atlantic Ocean, would be able to send strong enough naval forces against

[74] Kehr, *Schlachtflottenbau und Parteipolitik,* pp. 355 *et seq.; National Review,* April 1905; Speck von Sternburg to the Auswärtiges Amt, April 8, 1905.

[75] Cambon to Delcassé, Nov. 19, 1901. *Documents diplomatiques françaises,* 2e série, t. 1, No. 517.

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> the hostile coast. Both parties would have to confine themselves to seizing the enemy's merchant vessels and inflicting injuries on his colonies . . . [the writer considered it particularly hopeless to attack the continental domain of the United States]. A *coup de main* against the West Indies would perhaps be more promising for Germany. But even there, the lack of coaling stations might easily place the German ships in very difficult positions and even expose them to the danger of destruction. It is hardly to be expected that the bombardment of places on the coast or a landing of small military forces by means of numerous transports would break the power of the United States and bring about a speedy conclusion of peace. On the other hand, attacks on the part of the United States against the coasts of Germany would probably not be successful either, provided England closed her harbors and coal depots to the American ships. In Germany's West African colonies the Americans might perhaps gain a temporary advantage; but the climate would soon deter them from remaining there.
>
> In view of this situation it is incomprehensible how any one on either side could seriously entertain ideas of such a war. Only people who have a grudge against both countries could advocate it in earnest.[76]

This reasonable exposition of the impossibility of an American-German war did not mean that the idea of such a conflict had been altogether laid aside in German naval circles. The competition of the two navies was in large measure expressed in mutual suspicions and appetites for the same objects, like coaling and naval stations—desires that were of necessity alike, for both had gone to the Mahan school of sea power. In the Caribbean region such naval desires, though more restrained naturally by the *Auswärtiges Amt* than by the State Department, overlapped most dangerously.[77] From this region some German naval officers thought that an attack could be undertaken against the continental domain of the United States. Should a coaling station not be available in the West Indies,

[76] Captain Sigsbee submitted the article to the General Board, without any comment of his own, Jan. 24, 1902. Natl. Archives.

[77] For details see Vagts, *Deutschland und die Vereinigten Staaten*, chap. xiv.

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however, at the beginning of such a war, then there was the more reason to look for success in an attack on America's commercial centers like Boston.[78] This was within the constituency of Senator Lodge, who at the time thought a German attack against the United States "a pretty dangerous undertaking under any circumstances, but at the same time . . . well within the range of possibilities, and the German Emperor has moments when he is wild enough to do anything." Lodge, however, expected such an attack "through some attempt in South America, probably in Brazil." [79]

Reading the German exposition of the impossibility of an American-German war allayed only temporarily the suspicions of the Office of Naval Intelligence and its chief. Sigsbee himself believed in the possibility of landing a hostile force on American shores; and since the city of Washington was to the American naval officer the center of his universe, he expected the attack to be made there, as in 1812—as on other national capitals in the national wars of the nineteenth century—and not on the big cities of the Northeast, where the German invasionists placed the *nervus rerum* of America. Thus the plans of the latter and the apprehensions of the former did not coincide or even overlap. Yet they are both significant in that period for the history of choosing strategic objectives. It may cause surprise—to those who do not see the force of historical illustrations and imaginings in the American fighting services—that the American partner of the invisible *Kriegsspiel* chose his objective from a more bureaucratic-historical point of view, whereas the Germans had decidedly the more modern, i.e., economic, aims in mind, though they were not modern enough to include the war-industrial regions of the United States like Pittsburgh and Connecticut.

During the Venezuela crisis of 1902-3, American naval officers worked themselves into an anti-German frenzy, almost as if war with the Reich was immediately impending and not

[78] Very secret military report of von Rebeur-Paschwitz, Jan. 21, 1902. Vagts, *op. cit.*, p. 1469.

[79] Lodge to Roosevelt, March 30, 1901. *Correspondence*, vol. I, p. 487.

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merely the passing of a naval bill in Washington.[80] At that moment, Sigsbee, whose function it was to supply part of the intelligence to help the bill through Congress, submitted to the Secretary of the Navy, Moody, his conviction that Washington would be attacked "in the event of war between the United States and any stronger naval power" and that the question ought to be studied by the General Board. He was convinced that "an enemy's fleet, strong enough to defeat the United States fleet, could proceed without difficulty past the capes of the Chesapeake and thence to Annapolis. It would encounter no fortifications in its passage." Annapolis could serve as a basis of operations against Washington, which was without any fortifications in this direction—a state of things only too well

[80] On March 11, 1903, when the intervention in Venezuela was terminated, Sigsbee submitted the following memorandum to Rear Admiral H. C. Taylor, Chief of the Bureau of Navigation, Confidential, Personal: "The number of German names borne on the enlistment rolls of the Navy are very suggestive. Looking into the newspapers this morning I saw two German names among those men who were killed by the explosion on board of the Massachusetts. Evidently the Germans think that the Germans in the United States would not be loyal as a body in the event of war with Germany. It is more than probable that the condition on board our ships in respect to German enlistments has been carefully studied by Germany and that she has a spy system on board our ships, a system most easy of accomplishment." Sigsbee proposed that on board of some of the ships a survey be made in order to find out whether those members of the crew with German names were "native born or naturalized; how long in the service before naturalization; how long in this country; how long in the Navy; whether their tattoo marks are emblematical of patriotism to Germany or to this country, etc. . . . If the information gave rise to suspicion, then a scheme might be devised for further investigation," to find out among other things "the probable willingness of enlisted men of German names, especially gun captains, etc., to shoot straight enough to hit a German ship. If it should be found that there are a good many gun captains, gunner's mates, etc., of German names, the fact would be highly suggestive. A German gun captain would have it in his power to shoot wide off his mark without detection, altho' the presumption is against such a course, for the reason that any man being shot at would naturally wish to shoot the shooter if only to avoid being shot in turn. There can be no doubt that foreign governments exercise in other countries than their own, far more espionage than is attempted by the United States Government." The outcome of the proposal is not evident from the papers of the Naval Intelligence Office. (Natl. Archives.) One wonders if Sigsbee's Germanophobia was stirred by the ironical fact that his own successor in office, Captain Seaton Schroeder, had a German name.

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known to the stronger Powers, all of whom had attachés stationed in that city.

> In order to clearly perceive the exposed condition of the National Capital, it is only necessary to conceive the United States fleet as having been sent to the West Indies through a feint in the latter region by a strong naval power or by allied powers. . . . The United States would find it difficult to mobilize an army of sufficient cohesive power to repel a sudden and powerful attack on Washington if the attack were well planned in advance in every essential feature. No other objective point in the United States is now so inviting for attack as the city of Washington. The national gun shop, immense stores of gold and silver in the Treasury, the Government records and buildings, and the prestige of the nation, all invite an attack on this city. If Washington were seriously threatened in the way suggested—and only threatened—the question of the removal of the national capital to some inland city would again become one of great public moment.

Sigsbee did not name the Bordeaux of 1914 for Washington or the state in which the gold treasures of the United States were to be buried. Nor did he attempt to present these questions in detail, but he recommended that they be referred to the General Board of the Navy.[81]

Technical developments in shipbuilding, the trend toward the dreadnought and thus toward "concentration rather than diffusion of energy, forces and expenses,"[82] as well as political constellations after 1903, led to an increased stationing of the ships of the big navies on or closer to the home shores. The

[81] Sigsbee to the Secretary of the Navy, Confidential, Jan. 21, 1903. Natl. Archives. The outcome of the proposal is not given in the papers of the Office of Naval Intelligence, which during the years 1901 and 1902 suffered from a lack of appreciation, as its head believed; he pointed out to the Chief of the Bureau of Navigation that there were only three officers left in his office as against six originally, whereas Germany had eighteen officers on duty for the corresponding service and Great Britain thirteen. Memorandum of Jan. 16, 1902. Natl. Archives.

[82] Navy Department to the State Department, May 8, 1903, announcing its intention of giving up all plans for more distant naval stations. Vagts, *op. cit.*, pp. 1463, 1864-5.

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desire on the part of the technicians for far-flung systems of naval and coaling stations abated, even if the power dreams of the civilian imperialists in the several countries still clung to nets of naval and cable bases. Early in 1905 Anglo-German antagonism had become so pronounced that the North Sea became thenceforth the most likely theatre of the next naval war.

Anglo-German antagonism added immensely to American security and marked one of the biggest steps in its growth. To make this fact emphatic and plainly visible in the American hemisphere, Great Britain early in 1905 recalled the English garrisons from Esquimalt and Halifax, from which she once had contemplated carrying offensive action by her fleet against the Atlantic coast in the case of a war with the United States.[83] From then on these stations as well as Jamaica were left in a state of systematic neglect. For those to whom this gesture was not yet clear enough, the speech of Arthur Lee, one of the Civil Lords of the Admiralty, on February 2, 1905, made it plain that Germany was Britain's most likely enemy and, implicitly, the United States was the most unlikely one.

This unearned increment of security was hardly to be appreciated and enjoyed for any length of time, however, for obviously the age was in love with its own imperalist neuroses and would not let them go for the price of additional security. Though Germany's fleet was now bottled up in the North Sea, the American navy still found it convenient to use that fleet—if the "yellow peril" of the Japanese navy would not work—as a yardstick for its own desires.[84] Lest American naval politicians drop the subject, they were told by their friends among English diplomats and politicians, like Spring-Rice, that the true objective of the aggressive thoughts of the German navy was not England but America.[85] The latter could even quote the Kaiser himself in this regard, for he had told his Uncle Edward that the building of the German navy was not

[83] C. P. Stacey, *Canada and the British Army, 1846-1871* (London, 1936), p. 161.

[84] Vagts, *op. cit.*, pp. 1523-4, for details.

[85] *Die Grosse Politik*, No. 6287-8.

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at all directed against England but against the United States.[86] They were frank enough to inform everyone concerned after 1904 "that the two-Power standard had nothing whatever to do with the United States", and that war with the United States was unthinkable.[87] But German navalists from the Kaiser down refused to believe that a navy could disregard even an unlikely adversary, and convinced themselves that the growth of the American as well as the Japanese navy would limit British concentration in the North Sea, which it did not.

The next great step in the growth of American security was due to the World War. All the potential enemies of the United States in Europe had locked horns. The Turks at the Dardanelles and their German allies demonstrated how much even an improvised land force could do against the foremost sea Power, landing on their shores. The whole episode brought to mind the exhortation of Demosthenes, the general, to his Athenians: "I call on you, Athenians as you are, and knowing from experience as you do the nature of a naval descent on the coast of others, namely, that if a man should stand his ground, and not retreat for fear of the roaring surf and the terrors of the ships sailing to shore, he would never be driven back." [88]

But little were the American people allowed to take this reassuring view from the experience of the European War. It was immediately said that the War would be followed by another against America, and an invasion by a victorious Germany. Conceived as action against this, still distant, enemy, American participation in the World War must be regarded as preventive in character—a character not usually ascribed to it. Regularly disregarded were technical arguments, such as that the coaling capacity and steaming range of the German battleships were insufficient for crossing and recrossing the Atlantic safely.

[86] H. Vom Rath in *Preussische Jahrbücher*, May 1932, with statements of Holstein.

[87] E. L. Woodward, *Great Britain and the German Navy*, pp. 283, 468; *Die Grosse Politik*, vol. XXII, p. 45.

[88] Thucydides, *The History of the Peloponnesian War*, Book IV, chap. 10, edited by Henry Dale (London, 1885), vol. I, p. 234.

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To raise the feeling of insecurity by all means was one of the main features of the preparedness movement. It took such literary forms as the letters of Walter H. Page from London [89] or of J. Bernard Walker's novel *America Fallen! The Sequel to the European War.*[90] This dealt with a war on the part of Germany against America, following the close of the European War, in which Germany was to have been beaten by the end of 1915 and forced to pay high reparations, though permitted to retain her navy. In the story, a *Kronrat* at Potsdam lays down the first of April, 1916 as "Der Tag" on which Germany, with the permission of Great Britain in return for acquiring Mesopotamia, is to start her test of the Monroe Doctrine, "the most magnificent bluff in all history and, so far, the most successful." The German attack, arising from an American protest against the Reich's purchase of the Virgin Islands from Denmark, is directed against New York, Boston and Washington, thus combining the features of the earlier hypothetical plans of attack. Warships and the merchant marine are "secretly" started from Germany. A German submarine flotilla under the command of a Lieutenant Schlesinger attacks the Brooklyn Navy Yard. In the approved style of William Le Queux [91]—"London invested, bombarded, and sacked"—a German fleet forces its way into New York harbor and bombards the city (a map shows how this is done). The city capitulates and has to surrender 1000 tons of gold, thus enabling Germany to pay her reparations bill. The American fleet, weak and neglected on account of the fear of militarism on the part of Congress, is beaten in the Caribbean. More and more German troops land, occupying the regions where armaments are produced, Connecticut, New Jersey, the du Pont Works. After the fall of Pittsburgh, peace.

In the literature printed for the purpose of spreading insecurity, and thus preparing for preparedness, was no less a

[89] Burton L. Hendrick, *The Life and Letters of Walter Hines Page* (New York, 1922), particularly vol. I, p. 349.

[90] New York, 1915.

[91] His novel *The Invasion of 1910, with a Full Account of the Siege of London* (1906). See Woodward, *op. cit.*, p. 117.

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production than von Edelsheim's brochure of 1901, in two translations.[92] Probably it will be forever impossible to estimate its contribution toward making up American minds for war. Perhaps, though, it helped to turn one American finally against Germany. To George Sylvester Viereck, Theodore Roosevelt explained the shift in his stand on neutrality on the ground that he had "positive information of a contemplated German attack on the United States." In that connection he showed "among his papers an alleged plan of the German General Staff, signed by some obscure general, a plan published shortly afterwards in the press"[93]—a plan that might possibly have been von Edelsheim's, for he had been "In the service of the German General Staff in 1901," as the title-page of the British translation of his brochure emphasizes.

Obviously the two adversaries—Germany and the United States—could not meet at all, except by steaming across the seas, and the post-mortem on German plans against America, undertaken before the German fleet was scuttled at Scapa Flow, revealed that its bunker capacity would have allowed it to fight in European waters only.[94] Moreover, a merely two-sided American-German conflict was highly improbable, if not impossible, given the conditions of the time, both physical and political. That it was actually contemplated is doubtless due largely to the endeavors on the part of many naval officers and

[92] *Operations upon the Sea* (New York, 1914). See a review in the *Harvard Military Historian and Economist*, vol. I, pp. 383-4. *Germany's Naval Plan of Campaign against Great Britain and the United States*, translated by Alexander Gray (London, Toronto and New York, 1915).

[93] George Sylvester Viereck, *The Kaiser on Trial* (New York, 1937), p. 471. Some fifteen years later the Kaiser himself, with more aplomb than good memory, assured his blood relative "that the 'plan' was a forgery. Never was any plan for military or naval action against the United States prepared or even contemplated. The so-called German plan for an attack upon the United States was evidently a fabrication intended to precipitate the United States into war."

[94] Statement of Secretary of the Navy Daniels after his return from Europe. *The Nation*, May 24, 1919. Compare with this the ambiguous statements about the steaming range of German battleships by Winston Churchill before the Dominion representatives in 1912. H. H. Asquith, *The Genesis of the War* (New York, 1923), pp. 77 *et seq.*

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a few military officers to give a new or renewed power, the sea power, a great, decisive or even a single decisive rôle in the coming war; this war was expected as the consummation of a fierce, but actually overstated, competition—a competition repeatedly emphasized by officers and other imperialists, but not by merchants or bankers or laborers.

This discussion of an American-German war demonstrates the danger to national security and defense that may proceed from the officer who is too politically minded. His political convictions may persuade him that a war which cannot take place in reality is quite possible, as was particularly the case among officers on either side in the early 1900's. Or he may be led to consider impossible a war that is really possible and may actually be undertaken, as was true of the German naval officers in the World War who held, on technical grounds, that America could not come in. The contemplation of the American-German war is a peculiarly clear and simple example of the way in which historical, political and psychological momenta, in other words, the *Weltanschauung* of the concipient of a given strategic plan, may contribute to shaping his schemes. It also shows how difficult it must be for a great general, before he makes his decisions, to free his mind from the shackles of his mere milieu.

This survey also seems to indicate that the new power created for purposes of warfare, namely, sea power, overemphasized by Mahan and generalized by him into a world-ranging force, had nowhere found, or been assigned by a central authority, its place in the totality of war and that, therefore, officers could easily and arbitrarily give it the highest rank in their thought of wars which could never have been envisaged from the standpoint of land power. It is apparent that naval officers, and a number of military officers overborne by the arguments of the former, were inclined to overrate offensive actions on water and against coast lines, and to hold the sea-power offensive superior to land-power defensive,[95] at a time when land

[95] Von Rebeur-Paschwitz (to the *Reichsmarineamt*, Nov. 1, 1900) would not give land fortifications for the protection of the future Panama Canal the great importance that the American press ascribed to them in discussions of the

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power was really growing in its defensive potential. Blind to the power in the earth, as exemplified by trench warfare, and neglecting the whole subject of the defensive, comparatively, while embracing the theory of the offensive *à l'outrance,* these officers, naval and military, made preparations, on training grounds and in the plans of General Staffs, which were based on a gross misconception of the actuality presented by modern war on land and sea.

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Hay-Pauncefote Treaty. "It would not be difficult for a superior fleet like the British, in spite of all fortifications, to keep the ships of the United States from using the Canal by keeping the approaches to the Canal blockaded." (Archives of the Ausw. Amt.) Here again the reckoning with the most unlikely enemy!

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THE MOST FAVORED NATION CLAUSE AND RECENT TRADE PRACTICES

ONE of the few attributes of the most favored nation clause which can be stated with any degree of certainty is its persistence as an underlying factor in the commercial relations of nations. Indeed, this clause has been termed "the cornerstone of all modern commercial treaties".[1] It is to be noted, however, that the most favored nation problem remains a relatively obscure part of economic analysis. This is due primarily to the fact that existing accounts of the origin, history, purpose and operation of the most favored nation clause are inadequate.[2] It is not unfair to say that much of the confusion and obscurity surrounding it at the present time arises from the lack of proper understanding as to its implications. The following pages will sketch some of the difficulties which have beset the practice of granting most favored nation treatment in recent years. Certain developments since the World War, and more particularly the emergence of non-tariff trade controls since 1930, threaten the very existence of the clause.

The most favored nation clause embodies the principle of equality of treatment in international economic relations. Its object is to place all nations on equal terms in commercial competition so far as barriers to trade are concerned.[3] To this end it is usually incorporated in a commercial treaty or agreement between states, whereby the contracting parties mutually confer advantages, more notably those which they have already accorded or will in the future accord to a third power, without a new convention to that effect.[4] The clause is, therefore, at

[1] Stanley Hornbeck, *The Most Favored Nation Clause in Commercial Treaties*, Univ. of Wisconsin Bulletin, vol. 6, 1910, p. 339.

[2] There is no systematic treatment of this subject in English.

[3] N. Ito, *La Clause de la nation la plus favorisée* (Paris, 1930), p. 18.

[4] Carlos Calvo, *Le droit international théorique et practique* (4th ed., Paris, 1887-8), Tome III, p. 365. (All definitions essentially revolve about this one.)

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once a rule of international law and an economic instrument for the organization of world trade.[5] Its origin must be traced to the paramount concern of nations to preserve equal opportunities in foreign markets. Its existence has not been static or isolated; the extent and the forms of its application have depended in large part upon prevailing economic and political conditions. The destiny of the clause has been directly bound up with that of the commercial policies of nations; indeed, it has evolved with those policies.

I

When the clause first appeared in treaties of commerce, it was used to guarantee equality of treatment for the rival trading cities of the Mediterranean in their commercial relations with the Arab princes of northern Africa in the twelfth and thirteenth centuries.[6] At this time the clause was unilateral in form. But as world trade expanded rapidly in the fifteenth and sixteenth centuries, economic relations became more complex. Commercial treaties became more necessary and frequent. No nation could afford to fall into a position of disadvantage in the growing markets of its neighbors. The most favored nation clause was employed more extensively to avoid a useless repetition of agreements.

At first the reciprocal favors between contracting parties were limited to concessions granted to a specified nation or two, and consisted only of those existing at the time of the accord.[7] Since nations could hardly risk the incurrence of future discrimination, the scope of most favored treatment was later broadened to include concessions granted *after* the signing of a given treaty.[8] The custom of restricting the generalization

[5] Charles Rist, "Comments on the Past and Future of the Most Favored Nation Clause in Its Limited and Unlimited Forms", *The Improvement of Commercial Relations Between Nations* (Paris, 1936), p. 111.

[6] Suzanne Basdevant, *La Clause de la nation la plus favorisée* (Paris, 1932), p. 8.

[7] Ito, *op. cit.*, p. 80.

[8] M. L. E. Visser, "La Clause de la nation la plus favorisée dans les traités de commerce", *Revue de Droit International*, 2nd Series, vol. 4, 1902, p. 70.

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of those favors accorded only to specified nations gave way to the inclusion of such favors granted to "any foreign nation whatsoever".[9] In the eighteenth century the modern form of the most favored nation clause evolved; the phrase "most favored foreign nation" appeared for the first time. Throughout this initial period of development the "unconditional" form of the clause was used, which meant that the generalization of concessions was not contingent upon the receipt of concessions equal to those exchanged by the original parties to a commercial treaty.

The second stage in the development of the clause began with the first "conditional" most favored nation treaty, between France and the United States in February 1778.[10] Until 1923, with few exceptions, the United States was a staunch proponent of the principle that favored nation treatment was only forthcoming upon the offering of "equivalent" concessions. Most American commercial treaties therefore contained the stipulation that the signatories pledged to extend to each other any favor granted to a third nation, "freely, if the concession was freely made, or on allowing the same compensation, if the concession was conditional". Although the conditional clause was inserted in the Treaty of 1778 at French rather than American insistence,[11] it was peculiarly suited to the political and economic circumstances of the younger nation.

The domination of the conditional most favored nation clause may be said to have extended from 1827 to 1860 [12] but actually the influence of the so-called American interpretation was felt before that time. During the era after 1827, the unconditional clause was not abandoned; European nations alternated their policy between the two forms, using the conditional clause in

[9] Treaty between Great Britain and Denmark, Feb. 13, 1660, Sir Edward Hertslet, *Treaties* (London, 1827), vol. 1, p. 181.

[10] The Methuen Treaty before this time (1703) was "conditional", but not in the modern sense; however, see Edgard Allix, *Les Droits de douane* (Paris, 1932), vol. I, p. 54.

[11] Vernon Setzer, "Did Americans Originate the Conditional Most Favored Nation Clause?", *Journal of Modern History*, vol. 5, Sept. 1933, pp. 319-323.

[12] Hornbeck, *op. cit.*, p. 342.

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their commercial treaties with the United States and South America. The prevailing spirit of this period was, however, individual tariff bargaining and autonomy.

Between 1850 and 1860, European tariff and commercial policies were radically transformed, marking another stage in the historical evolution of the most favored nation clause. Mercantilism waned, and the adoption of liberal trade policies became almost universal. The Cobden Treaty signed by France and England in 1860 was the signal for the negotiation of many commercial agreements embodying the unconditional clause with a wider scope of application than at any time in its history. From 1860 to the World War this form of the clause enjoyed its greatest ascendancy; a series of commercial treaties spread over Europe which were interconnected by the operation of the unconditional grant of favored nation treatment, a situation which obtained with only minor exceptions for fifty years. But it must not be assumed that the most favored nation clause was applied unreservedly even in this, the zenith of its development. The reaction against free trade after 1875, culminating in the German and French protective tariffs of 1879 and 1892 respectively, and the increased specialization of tariff schedules at the turn of the century imposed noticeable limitations on the operation of the clause. Before 1914 the clause came nearest to accomplishing its objective, equality of treatment, because of the absence of quantitative restrictions on world trade and general monetary and economic stability.

II

After the destruction of the pre-war world economy, the most favored nation clause never regained its former position as the foundation of commercial treaty policy. Opposition to the clause had gained ground during the hostilities. The Allied Economic Conference held in Paris, June 14-17, 1916, decided to withhold most favored nation treatment from the Central Powers.[13] Under the terms of the Versailles Treaty,

[13] Allyn A. Young, "Commercial Policies in the Treaties", *A History of the Peace Conference of Paris* (London, 1920-24), Harold W. V. Temperly, ed., vol. V, p. 64.

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Germany, Austria and Hungary were compelled to grant unilateral unconditional most favored nation treatment to the Allies, the first-named for five years, the latter two nations for three years.[14] There is little doubt that the third of President Wilson's Fourteen Points, using the phrase "equality of trade conditions", envisaged some type of commercial régime in Europe welded together by the interaction of the most favored nation clause in trade treaties. The final expression of this idea in the Covenant of the League of Nations was very broad, with merely the specification that the treatment of the commerce of the League members should be "equitable", and there was pronounced opposition to the incorporation of a most favored nation clause in the fundamental law of the League.

The commercial treaties terminated by the World War were slow in reappearing. France, which had denounced her most favored nation agreements in 1918, successfully undermined any attempts to reëstablish the pre-war status of the clause.[15] In general, the existence of war-time trade restrictions, widespread reciprocity in trade policies, and preoccupation with economic reconstruction all combined to prevent the resumption of most favored nation treatment in the immediate post-war period. With substantial recovery after 1925, however, economic policies took on greater stability and the negotiation of most favored nation treaties was resumed, although the scope of the clause was by no means as broad as it had been before 1914[16] and commercial treaties were usually concluded for shorter periods of time.[17]

In 1927, the World Economic Conference, having closely studied the problems of commercial policy, stressed the development of a series of long-term treaties embodying the principle of equality of treatment. To this end it recommended

[14] Treaty of St. Germain-en-Laye, Article 222; Treaty of Trianon, Article 205.

[15] For example, the Genoa Conference of 1922 completely rejected most favored nation treatment on the express instigation of France. Arnold Toynbee, *Survey of International Affairs, 1922* (London, 1923), p. 75.

[16] Alexander Loveday, *Britain and World Trade* (London, 1931), p. 44.

[17] Eugen Grossman, *Methods of Economic Rapprochement*, League of Nations, II Economic and Financial, 1926, II 69, p. 8.

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that "it is highly desirable that the widest and most unconditional interpretation should be given to the most favored nation clause." [18] The Conference also recommended the reduction and stabilization of tariffs through bilateral and collective agreements, the benefits of the former to be generalized by the operation of the most favored nation clause. The year 1927 was "the year of commercial treaties", largely because of the impetus provided by the League of Nations conclave. France broke with reciprocity and concluded an all-important most favored nation agreement with Germany. Similar bilateral accords between other nations brought about numerous and substantial reductions in tariffs. The United States had already reversed its policy in 1923. Thus the unconditional clause seemed firmly entrenched once again. But the process of negotiating bilateral tariff pacts slowed down considerably for a reason which it is important to consider.

When countries with high tariff systems claimed most favored nation treatment, the result was to discourage reciprocal negotiations. The existence of two fundamentally different tariff systems, i.e., the contractual and the autonomous, led to "an awkward stalemate", since nations imposing high single line tariffs made no concessions by agreement and at the same time insisted on sharing the benefits resulting from all other conventional arrangements.[19] For example, the United States formally adhered to the unconditional clause but made no reductions in its tariff. Not only did this situation hinder bilateral lowering of tariffs; it caused widespread dissatisfaction with the clause itself. Those nations which attached more value to actual tariff agreements than to the juridical guarantee of most favored nation treatment unaccompanied by tariff advantages felt that the clause penalized their efforts. In an attempt to deal with this critical problem, the Economic Committee of the League pointed out the necessity of making the scope of the clause clear, and set forth a fairly complete body

[18] League of Nations, World Economic Conference, Final Report, II Economic and Financial, 1927, No. 46, p. 34.

[19] John H. Richardson, *Economic Disarmament* (London, 1932), pp. 81, 82.

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of rules regarding the clause in general.[20] This marked the climax of positive efforts to maintain the unconditional form of the clause as the underlying principle of commercial policy; bilateral negotiations practically ceased by the end of 1929.

There still remained the possibility of achieving tariff reductions through multilateral agreements. The question naturally arose as to whether states not parties to such agreements could by virtue of bilateral unconditional most favored nation treaties with the signatories claim the benefit of advantages accorded to the latter. The Economic Committee recommended that collective tariff pacts should constitute an exception to the clause, that the nations affected should consent to such an exception, and that these pacts should be open to accession by all nations which furnished the requisite *quid pro quo*.[21] Despite this clear-cut proposal, the reconciliation of broad most favored nation treatment with collective agreements was never effected. Throughout the Conference with a View to Concerted Economic Action, which met twice in 1930 to stem the menacing tariff increases evident at the end of 1929, great pressure was exerted for recognized exceptions to the clause, particularly by the agrarian states of eastern and central Europe which demanded multilateral agreements assuring preferential treatment for their products in European markets.[22] There was, however, no general assent to modification of the clause. None of the European nations with important overseas exports was prepared to offend its customers outside Europe.

At the November meeting of the above conference it was freely admitted that the possibilities for multilateral tariff reductions were closed, and while lack of unified opinion concerning the operation of the clause in the case of collective agreements was not the sole, or even the most important, cause of the breakdown in the attempt to reverse the upward trend

[20] *Recommendations of the Economic Committee Relating to Commercial Policy*, League of Nations, II Economic and Financial, 1929, II, No. 15.

[21] *Ibid.*

[22] *Proceedings*, Second International Conference with a View to Concerted Economic Action, Nov. 1930, p. 29. Hamilton Fish Armstrong, "Danubia: Relief or Ruin?", *Foreign Affairs*, July 1932, p. 279.

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of tariffs, the fact that there was no unified opinion concerning it and consequently no recognized exceptions for regional preferences undoubtedly contributed much to the ever-increasing feeling among the nations of Europe that the clause was not compatible with the reduction.

Meanwhile, the wave of discriminatory protectionism and indignant retaliation which followed the Smoot-Hawley Tariff of 1930, together with the difficulties outlined above, added to the disrepute of the unconditional clause.[23] An unprecedented refinement of tariff classifications further limited its effects, and most of the subsequent tariff negotiations were for the purpose of allowing nations to recover their freedom of action from most favored nation treaties.[24] The deepening depression, with its pressure upon currencies and balances of trade, gave rise to strict reciprocity in bilateral agreements, and in cases where most favored nation obligations obstructed the carrying out of this policy, such obligations were circumvented, annulled or violated.[25] The period 1929-1932 was, then, one of growing dissatisfaction with the most favored nation clause. As new conditions pushed the clause into unreality, opposition to its application continued, and any thorough reform of the principle of equality of treatment to cope with these conditions was impossible in view of economic dislocations and national ambitions. Efforts of the League of Nations toward this end were an uninterrupted failure. After 1932, Great Britain, France and other nations granted unconditional most favored nation treatment only in isolated cases, and even then within a framework of reciprocity. So general was this virtual abandonment of the unrestricted most favored nation clause, that the Economic Committee of the League admitted in June 1932 that the clause had to all intents and purposes become a dead letter in commercial rela-

[23] For an excellent discussion of the repercussions of the Smoot-Hawley Tariff, see Joseph Jones, *Tariff Retaliation* (Philadelphia, 1934).

[24] Henry Chalmers, "Foreign Tariffs and Trade Control Movements 1930-31", *Commerce Reports*, April 20, 1931.

[25] Jones, *op. cit.*, p. 259.

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tions.[26] But a new set of factors was taking shape which was to have a far greater influence upon the status of the clause as a basic feature of commercial policy.

III

Out of the economic collapse of the world have grown new non-tariff trade controls. These neo-mercantilist devices, such as exchange controls, clearing agreements, import quotas, and monopoly purchase, have in effect created conditions of commercial discrimination. By superseding tariffs as the most important method of trade restriction, these measures have substantially reduced the area within which the practice of granting most favored nation treatment can prevent such discrimination. Universally regarded as temporary at the outset, the latter have rapidly developed into more enduring features of commercial policy. Their popularity is due in no small part to the evasions of the most favored nation clause they make possible.

Import quotas were adopted largely because tariffs were ineffectual in stopping imports of goods from countries with depreciated currencies, and because, in the absence of adequate export markets, restriction of imports was the only possible way to achieve a favorable balance of trade. Furthermore, the tariff rates of most nations were consolidated in most favored nation treaties which could not be denounced except on several months' notice.[27] All but three of the twenty-five nations on the European continent had therefore resorted to import licenses or quotas by 1932.[28] A clear illustration of the way in which most favored nation treatment is complicated by these quota restrictions may be found in connection with the German butter tariff.[29] In February 1932, Germany made an agree-

[26] League of Nations, Official Document: C. 516, M. 255, June 1932.

[27] France in particular had consolidated 72 per cent of her rates. Ethel B. Dietrich, "French Import Quotas", *American Economic Review*, Dec. 1933, p. 4.

[28] U. S. Department of Commerce, *Trade Information Bulletin*, No. 812, 1933, p. 3.

[29] "World Trade Barriers in Relation to American Agriculture", Letter from the Secretary of Agriculture, Senate Document No. 70 (Government Printing Office, Washington, 1933), p. 74, footnote 26.

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ment with Finland that it would admit an annual contingent of 5,000 tons of butter from Finland at a duty of 50 reichsmarks per quintal. This duty was lower than that of any German tariff on butter at the time; therefore, the concession was generalized to countries with whom Germany had most favored nation agreements. This arrangement caused opposition to Holland, Denmark, and some other countries which exported considerable quantities of butter to Germany. Since the imports from Finland were small in comparison with those from Holland and Denmark, the quota of 5,000 tons allowed a large proportion of butter from Finland, but a relatively small proportion of the imports from Holland and Denmark, to enter at a reduced rate. According to the latter, this was a violation of the spirit of the most favored nation clause. In addition, Holland and Denmark had another grievance. Shortly before the agreement with Finland was signed, Germany had imposed an antidumping duty of 36 reichsmarks per quintal on butter imported from countries not on the gold standard. This applied to countries having most favored nation treaties with Germany and was added to the regular duty. Thus as a result of the antidumping duty and the quota arrangement, no less than four different rates of duty on butter imported from countries having most favored nation treaties with Germany were in effect.

The difficulty of harmonizing quota régimes with most favored nation treatment is again illustrated by the major principles of allotment so far adopted by the various nations which impose quotas.[80] In the first place, as can be seen from the above example, the equal allocation of total imports among all supplying countries is unfair in that it favors imports from relatively small and possibly high cost countries at the expense of those which are normally principal suppliers. The practice of permitting a total amount of imports without allocation is technically less contrary to the most favored nation clause than any other method; however, it is seldom used because of the obvious advantage it confers on nearby nations. Proportion-

[80] Excluding those of a purely arbitrary nature.

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ately allotting imports on the basis of a "representative period" is undoubtedly the most equitable plan of all, although the rapidity with which changes take place in production and marketing conditions makes it impossible to determine from the past what allocations best meet the current needs of all countries. This method can result in intentional or unintentional discrimination. For example, assume that country A and country B have been exporting automobiles to country C. Country C decides to impose a quota based on a three year average. The accounts show that country A's exports for the preceding year and the two previous years were at the rate of 8, 6 and 4 respectively per annum or a total of 18 for three years. The corresponding record for country B indicates that its exports were at a rate of 3, 5 and 7 or a total of 15 for the same period. Evidently A's average is 6, B's is 5. Hence the quotas are now fixed in this ratio. As a result, A exports 20 per cent more to C than does B. But a glance at the figures shows that before the quota, A's product was on the decline, and B's was becoming more prominent. An actual case bordering on this point was the choice of a base period for British colonial textile quotas; a period was chosen before Japanese exports became extensive.

In general, the conclusions drawn from quota restrictions hold true of the imposition of exchange controls. Whatever may have been the original purpose of these controls, they tend rapidly to be applied to the whole group of exchange transactions, from tourist traffic to merchandise trade.[31] Since the effect of control is to restrict new movements of capital, the amount of gold and foreign exchange available to countries applying such control becomes chiefly dependent upon the balance of trade. Exchange restrictions therefore lead directly to the curtailment of imports, for the control authority must distribute exchange for different purposes, for different commodity imports, among different nations, and among competing business firms. These decisions are all more or less arbitrary, and the opportunity to protect domestic industry or to give

[31] League of Nations, *Report on Exchange Control*, Official Document: C. 232, M. 131. 1938 II A, p. 23.

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priority to certain commodities is obvious. Debtor countries, for instance, have not been slow to use exchange rationing as a bargaining weapon, with the aim of giving preference to the trade of those nations to which they are not indebted or to which they are indebted to a less degree. The Runciman-Roca Treaty between Great Britain and Argentina may be cited as a case in point.[32] A distinction also is usually made between "essential" and "non-essential" imports; the nation unfortunate enough to export "non-essentials" is hardly placed on an equal footing with other nations. Since exchange control was adopted in Denmark, the importation of American apples has fallen off considerably simply because apples are not included among the necessaries of life by the Danish Exchange Control Commission. Some nations have made a practice of allotting foreign exchange in favor of imports from those countries which purchase their exports, or with which they are on particularly friendly terms. Thus in the case of Roumania it was frankly stated that the "general principle of exchange control is based on the direction of the import trade through the preferential issuance of import permits to countries with which Roumania has a favorable trade balance." [33]

Closely allied to exchange control, and resulting from its application, are clearing agreements. Such agreements are designed to make it possible for creditor countries holding blocked balances to obtain payment for goods already delivered, to continue their exports, and to secure at least partial repayment of financial claims as regards debtor countries. The plan adopted by most nations was that of bilateral clearance to eliminate foreign exchange transfers in so far as commodity transactions between any two nations canceled one another. In order for a clearing agreement to have its desired effect, it should provide a favorable trade balance for the debtor nation; in most instances, exactly the reverse is true for the reason that the artificially high rate of exchange found in the average clearing agreement acts as a brake on exports and

[32] Great Britain, *Treaty Series*, No. 2 (1934); Cmd. 4492.

[33] Ethel B. Dietrich, *World Trade* (New York, 1939), p. 131.

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a stimulus to imports so far as the debtor country is concerned. Almost invariably a clearing agreement operates to deprive the debtor country of a surplus of foreign exchange necessary to purchase goods from third nations. Consequently, trade tends to flow in the direction of the other party to the agreement at the expense of other countries.[34] Therefore, the relation between the creditor country in an arrangement of this sort and any other third country is one of ever-widening inequality.

Although clearing agreements are apparently merely a mechanism for effecting international payments, they have also been employed as a means of arbitrarily directing the flow of trade. Many contain a clause designed to restore the balance of trade between the parties, in which case a hidden preference must exist since the general price level is no longer the deciding factor. For example, Article X of a clearing agreement between Hungary and Belgium, March 26, 1932, provided that the latter would endeavor to increase the importation of Hungarian products.[35] Purposely or otherwise, clearing agreements result in indirect discrimination, a situation decidedly incompatible with most favored nation treatment.

Another component part of the galaxy of restrictive measures may be mentioned briefly. Import monopolies enable the central purchasing agency of a state to transfer its patronage from one nation to another without violating the most favored nation clause in its orthodox form. Germany set up a corn monopoly in 1930 because she wished to increase her import duty on corn, but was prevented from so doing because of a commercial most favored nation treaty with Yugoslavia.[36] In the case of Italy, what amounts to a global import monopoly is concentrated in the hands of the Under-Secretary for Trade and Exchange, from whom permission is necessary to import goods, since this is the only way importers can obtain foreign exchange.[37] An enlightening example of the difficulties in-

[34] League of Nations, *Enquiry into Clearing Agreements*, II Economic and Financial, 1935, I B. 6, p. 12.

[35] League of Nations, *Treaty Series*, vol. 136, 1933, p. 407.

[36] *World Trade Barriers in Relation to American Agriculture*, p. 63.

[37] William Welk, "Italy's Modern Commercial Policy", *American Economic Review*, vol. 27, March 1937, pp. 101 *et seq.*

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volved in the operation of most favored nation relations between two countries, one of which employs central purchasing control, is provided by the experience of Great Britain and Russia. Lord Runciman, speaking of the dissatisfaction with the working of the clause in regard to commercial relations with the Soviet Union, remarked, "It is impossible to work a normal most favored nation clause as an automatic piece of commercial policy when, on the one side, you have a private individual acting as a trader, merchant, broker, shipowner, and so on, and on the other side a state which can control the whole of the commercial transactions into and out of a country."[38] It is readily apparent that a state acting as sole purchaser could take measures which would largely nullify the effects of a particular commercial treaty. The pledge of equal tariff treatment is useless if a nation's exports are to be excluded on the basis of an arbitrary decision by the import monopoly of the other contracting party. There is no equality when one of the two contracting parties to a commercial agreement discriminates against the importation of products of the other by manipulation of internal marketing conditions quite apart from any tariff changes. Realizing these possibilities, Great Britain insisted upon the insertion of a modified clause in the temporary trade agreement with Russia in 1934, providing for the immediate resumption of negotiations in the event that the Soviet economic organ was creating or maintaining prices which would tend to limit the desired effects of the arrangement.[39]

IV

The cumulative effects of the action and interaction of the foregoing measures are noticeable in the changing structure of world trade. The object of commercial policy is no longer to make mutual concessions varying according to the economic needs of each country, but is to regulate trade between two nations on a basis of rigid equality in the value of commodities

[38] *Parliamentary Debates, Commons*, vol. CCLXXXVI, columns 1291-92, March 1, 1934.

[39] Ethel B. Dietrich, "The New Model Trade Agreements", *Journal of Political Economy*, vol. 42, 1934, p. 605.

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exchanged. Reciprocity and autonomy are the current guiding principles of trade relations.

A steady destruction of triangular trade has resulted in approximately 70 per cent of the world's trade becoming bilateral.[40] In Europe bilateralism has reached such a degree of development that the continent is becoming isolated from the normal channels of international trade. Two thirds of all trade agreements in 1933-1934 were intra-European.[41] Typical of the new commercial philosophy was the decree of the Argentine government in July 1934; it specified among other things that import restrictions should stimulate trade with countries which were good customers of Argentine products.[42] Australia embarked upon a program of trade diversion in 1936, favoring her best markets, with the result that American and Japanese imports were restricted by means of import licenses. Nowhere is bilateralism more clearly expressed than in the important commercial accord of February 16, 1934, between Great Britain and the Soviet Union, Article 3 of which provides that after December 1937 the balance of payments between the two countries shall be measured by a ratio of 1 : 1.1.[43] Germany's barter agreements are a classic example of the diversion of trade into bilateral channels; the countries in southeastern Europe have been forced to trade with Germany in order to liquidate credit balances held within the latter country by exchange control. German exports to Roumania, Turkey, Yugoslavia, Greece and Bulgaria were 48 per cent greater in 1937 than they were in 1929, though German foreign trade as a whole has declined over 50 per cent.[44] Exports to Germany from Bulgaria were 43 per cent of her total in 1937, as against

[40] Folke Hilgerdt, "The Approach to Bilateralism: A Change in the Structure of World Trade", *Index*, August 1935, p. 176.

[41] Henry Chalmers, "European Trade Agreements and the Operation of American Trade Agreements Program", *Official Report of the 21st National Foreign Trade Convention, 1934*, p. 58.

[42] Etienne Fougere, "Bilateralism: Dangers of the New Tendency in Treaty Policy", *World Trade*, November 1934, p. 3.

[43] Great Britain, *Treaty Series*, No. 11 (1934); Cmd. 4567.

[44] Philip E. Mosely, "Hitler and South-Eastern Europe", *Yale Review*, Winter, 1939, p. 250.

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29 per cent in 1929.[45] In 1936, Turkey's exports to Germany were 51 per cent, while only 5 per cent went to England, formerly a good customer.[46] This same trend holds true of Germany's trade with certain South American nations.

Bilateralism has only been made possible by a great change in the nature of commercial treaties and by violation of the most favored nation clause. Import quotas and other practices have become active bargaining weapons.[47] France, for instance, usually retains 75 per cent of a given quota for bargaining purposes and the Netherlands employs two quota schedules, one to be applied to countries which have granted her some reciprocal favor. Conventionalized quotas and exchange agreements permit such measures to exist side by side with the most favored nation clause.[48] Hence, agreements are now negotiated on a quantitative basis, by which increases in or withdrawals of quotas and exchange allotments on imports are granted in accordance with counter-advantages offered by the other country, such as increased quotas, guaranteed purchases of national products, release of blocked exchange, or a combination of all. Since 1932, Great Britain has entered into special treaties providing for the reciprocal purchase of definite quantities of goods from the Argentine, Norway, Sweden, Estonia and Finland.[49] The advantages resulting from these agreements have not been generalized to those nations entitled to most favored nation treatment from Great Britain. Numerous so-called "barter agreements" have been negotiated as well as "trade-balancing" agreements. Brazilian coffee has been exchanged for Polish rails; Austrian manufactured goods have been exchanged for Turkish tobacco; and Argentinian maize has been exchanged for Spanish rails.[50] That such

[45] *World Economic Survey, 1937/38*, League of Nations, II Economic and Financial, 1938, II A. 13, p. 185.

[46] Mosely, *loc. cit.*

[47] Henry Chalmers, "Foreign Tariffs and Trade Controls", *Commerce Reports*, Feb. 9, 1935, p. 4.

[48] F. A. Haight, *French Import Quotas* (London, 1935), p. 94.

[49] *World Economic Survey, 1933/34*, p. 204.

[50] League of Nations, Monetary and Economic Conference, *Review of the*

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bilateral quota agreements result in discrimination was shown in 1932 when Germany reduced her quota of coal from Great Britain. She was unable, because of special arrangements relating to reciprocal quotas with other countries, to reduce their quotas in the same proportion. Quotas have on occasion been employed to allow certain importers to make use of blocked exchange balances in other countries. Such was the case in 1935, when Yugoslavia extended the quota of German imports in order to profit by the accumulation of blocked marks in Germany.[51] An indication of the extent to which commercial treaties have changed can be gained from the fact that of 120 commercial agreements concluded in 1933-1934, only 30 contained an exchange of tariff concessions.[52] By 1937 there were 170 clearing agreements and numerous exchange control agreements,[53] all beyond the scope of most favored nation treatment.

These arrangements contain effective but concealed preferences and discriminations. Given the aim and weapons of the new model trade treaties and commercial policies, the application of the most favored nation clause must be avoided because the arbitrary diversion of trade could not be accomplished under conditions of equality of treatment.

Another recent tendency in commercial policy which has severely limited the effects of most favored nation treatment has been the development of regional preferences. It will be recalled that the attempt of the League of Nations, and of economic conferences held under its auspices, to obtain universal agreement on regional exceptions to the most favored nation clause failed. Certain regional agreements have materialized, however, and because there has been no universal approval of legal exceptions on this basis, they are violations of the most favored nation clause. Of course, there have

Principal Tendencies of Present Commercial Policy, London, June 26, 1933, Conf. M. E./11, p. 18.

[51] *World Economic Survey, 1935/36*, p. 203.

[52] Henry Chalmers, in *Official Report of the 21st National Foreign Trade Convention, 1934*, p. 58.

[53] *World Economic Survey, 1937/38*, p. 161.

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always been recognized regional exceptions to the clause;[54] but the recent trend toward the establishment of preferential régimes is far more significant than these accepted cases.

In 1931 Austria and Hungary established mutual preferences and avoided the effects of generalizing concessions by financing their trade through national bureaus on such favorable terms that it amounted to a substantial reduction in tariffs.[55] What is considered by many the outstanding regional violation of the clause is the British system of imperial preferences set up in 1932. There can be little doubt that, coming when they did, the Ottawa Agreements were a severe blow to the unconditional clause. It is difficult to reconcile the alleged legitimacy of the imperial preferences with the British attitude toward M. Briand's plan for European Union, which obviously implied some sort of low tariff or even free trade area in northern Europe and the easing of difficulties in eastern Europe. In its official commentary on the suggestion, the government declared that "it would cause conflict with the whole spirit of the most favored nation clause if it were open to any countries to conclude arrangements with each other which they did not extend to other countries."[56] On the same ground, Great Britain joined France and others in defeating the preferential tariffs envisaged by the Ouchy Convention of 1932. On the other hand, when an Agrarian Fund, which was actually a glorified bounty on eastern European agricultural products, was proposed by the Stresa Conference of 1932, Great Britain said she would "not object to the temporary suspension of the most favored nation clause".[57]

By 1932 France had granted virtual preferences on wheat from Yugoslavia, Hungary and Roumania, and on corn from the latter. Mutual exports and reduced railroad rates operated

[54] Richard Riedl, *Exceptions to Most Favored Nation Treatment*, Report to the International Chamber of Commerce, 1931.

[55] Jacob A. De Haas, *The Practice of Foreign Trade* (New York and London, 1935), p. 75.

[56] *Economist*, February 27, 1932, p. 449.

[57] Kálmán de Buday, "Stresa and After", *Nineteenth Century and After* (November 1932), p. 554.

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to put the trade of Italy, Austria and Hungary on a special footing. As the paralysis of international trade became more severe, regional agreements continued to form an escape in 1933. Chile and Argentina agreed to preferential treatment of each other's imports in June of that year. Due to the development of new restrictions, preferential quotas tended to replace tariffs as the subject of these negotiations. Such arrangements were exemplified by the Tripartite Agreement of May 1934, in which Italy, Austria and Hungary took part. Estonia, Latvia and Lithuania formed a group in 1934 which involved the conclusion of bilateral preferences not to be shared by any other countries.[58] In 1936 and 1937 Czechoslovakia concluded preferential agreements with Austria and Hungary. In the summer of 1937, the Oslo Convention was ratified; the Netherlands, Belgium and Luxembourg abolished all quotas for the benefit of the other signatories, and Denmark, Norway, Netherlands Indies, Sweden and Finland agreed not to raise tariffs or impose new restrictions.[59] There are other cases which are not so tangible. Some of the trade control measures discussed above, firmly entrenched as commercial weapons, have made possible spheres of economic influence which have no conventional basis. In so far as closed economic régimes have been established during the past eight years, equality of treatment has been progressively restricted.

V

The foregoing account of the factors underlying the gradual decay of the most favored nation clause has been over-rigid for the sake of brevity. These factors should be regarded as component parts of a general situation which is the converse of all that the principle of equality of treatment represents. The world economy in which the most favored nation clause was an effective safeguard against widespread discrimination has apparently disappeared. It was in a period of unprecedented economic liberalism and prosperity that the clause reached the

[58] Ethel B. Dietrich, *World Trade*, p. 248.

[59] Abandoned in 1938.

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greatest effectiveness of its long history. Today its disrepute is directly proportionate to the political and economic dislocations which have taken place since the World War; it is lost in a maze of perverted international economic relations. The presence of the unconditional most favored nation clause in commercial treaties is a tacit admission that the erection of trade barriers is not solely a matter of negotiation between two isolated nations; the interests of any third country are an implicit consideration. When this is ignored in the quest for special economic advantage, the most favored nation clause is subject to fatal limitation.

It should be noted, however, that the difference between the status of the clause at the present time and its status, say, fifty years ago, is not that between complete inequality and complete equality in economic relations. Equality of treatment is a matter of degree at best. Even were the clause carried out to its logical conclusion, some discrimination would undoubtedly exist. But it is only when tariffs are the sole, or by all odds the most important, trade barrier that a relatively high degree of equality is possible. True, over one half of the world's trade today is not affected by non-tariff trade controls. Furthermore, the clause is found in approximately 600 commercial treaties,[60] and no nation has seen fit to declare its outright abandonment of most favored nation treatment. Under prevailing conditions this simply means that the clause has been preserved in theory alone. Within the narrow area where the clause has effect, its scope has been increasingly restricted; outside of that area there are economic measures which are not only not subject to equality of treatment, but which seriously nullify and curtail the desired results of commercial agreements wherein the clause is incorporated.

As regards the future of most favored nation treatment, three alternative developments seem possible. In the first place, it may not survive the onslaught of economic and political changes, in which case it will be almost completely

[60] U. S. Tariff Commission, *Extent of Equality of Treatment, in Foreign Countries*, Report No. 119, May 1927, p. 11. Estimate made as of January 1, 1933. The number has not varied much since.

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discarded in favor of the principle of bilateral bargaining. In all probability, the present war in Europe, depending upon its eventual ramifications, will have two effects upon the immediate future of the clause. It will render inoperative many commercial treaties embodying the clause, and it will intensify policies of trade regulation which are antithetical to equality of treatment. Second, if quotas and exchange controls have become permanent features of commercial policy, an attempt may be made to apply the clause to them in an effort to achieve as much equality as possible under their operation. The United States is now pursuing this course, the success of which remains as yet unknown.[61] Two different economic philosophies cutting across each other in international trade make the chances of reconciling most favored nation treatment with mercantilist policies exceedingly slim. Denmark, for instance, finds it very difficult to reconcile her most favored nation relations with the United States and her necessarily special trade arrangements with Germany. Finally, there is a remote possibility that the world economy will return to normal, that is, to pre-war trade practices, that trade will be unhampered by quantitative restrictions, and that political conditions will be stabilized enough so that some measure of good will returns among nations. In this event, the clause will be restored to its former position as the basis of commercial policy. Even so, it will be a greatly modified clause if opposition to its present nature is any criterion. The issue seems simply drawn: has the organization of world commerce been so fundamentally altered that equality of treatment is no longer a primary requisite for satisfactory international economic intercourse? Much of the secret to the future of the most favored nation clause lies in the answer to this question.

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[61] See Henry Tasca, *Reciprocal Trade Policy of the United States* (Philadelphia, 1938).

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THE ECONOMIC PHILOSOPHY OF THOMAS JEFFERSON *

DOUBTLESS the most notable thinker ever to become president of the United States was Thomas Jefferson. The dominant American economic and political philosophy has run in his idiom ever since his administration. Radicals, liberals and conservatives have constantly based their arguments on what they conceived to be his social philosophy. Further adding to the confusion has been the futile habit of contrasting sharply the Jeffersonian scheme with that of his great adversary, Alexander Hamilton. The latter, it is agreed, believed that the mass was turbulent, ignorant and poverty stricken, that with the growth of wealth, inequality and class antithesis must increase. Therefore the stability of the social order and the security of person and property could only be maintained by a strong government in the hands of the wealthy and intelligent. To these classes, government at all times should render financial aid, for the sake of attaching them to the government by the strongest bond, that of interest, thus increasing national wealth and maintaining the employment of the mass.[1]

Jefferson, like the other enlightened minds of the eighteenth century, held that republican government was best because it prevented governmental restraint on the free acquisition of wealth. Thereby all men had an equal opportunity to acquire a comfortable livelihood. Government should be limited, lest those in power, animated like all men, by self-interest, deprive the industrious of the fruits of their labor. In the absence of

* This is the second of a series of essays on the economic philosophies of the founders of American democracy. The first, "The Economic Philosophy of Thomas Paine", appeared in the POLITICAL SCIENCE QUARTERLY, September 1938, vol. LIII, pp. 372-386.

[1] For the economic philosophy of Hamilton, see Rexford G. Tugwell and Joseph Dorfman, "Alexander Hamilton: Nation-Maker", *Columbia University Quarterly*, December 1937 and March 1938, pp. 210-226, 59-72.

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privileges granted by government, wealth would be acquired by industry rather than by law. With government limited, opportunity available to all, and the habits of thought of the despotic past, surely though slowly disintegrated by education, mankind's progress, material and intellectual, was illimitable.

Jefferson's career was full of shifts and contradictions. These, however, were grounded on his fundamental premise that republican government would endure only as long as opportunities and resources for the acquisition of property were available to an ever increasing population. His was the planter's logic. Under it wealth meant landed possessions, but specie, credit, markets and more lands were necessary for its maintenance and increase. The consequences of these premises were the expansion of empire and the correlative development of the money economy. The process can be seen in the Virginian's own career.

Jefferson had eminently respectable antecedents. He was the son of a Virginia planter, and a student at the royal College of William and Mary. Since the law was the road to political preferment, he became, in the accepted Southern tradition, a lawyer as well as a planter. He absorbed the regnant "common sense" philosophy which maintained that accepted beliefs embodied in the dominant institutions were self-evident or "common sense" truths. The philosophy did not disallow changes in policy. A primordial moral sense dominated men's actions, but worked itself out through the calculus of utility which nature made the test of virtue. Whether an act was useful, and thus virtuous, depended on the habits and circumstances of the people. But utility to Jefferson was not a matter of strict empirical determination. Rather it was what common sense found useful. Foremost among Jefferson's common sense truths was that property was founded "in our natural wants, in the means with which we are endowed to satisfy these wants, and the right to what we acquire by those means without violating the similar rights of other sensible beings." [2] His

[2] To Pierre Samuel du Pont de Nemours, Apr. 24, 1816, in *The Writings of Thomas Jefferson*, edited by A. E. Bergh (Washington, 1907), vol. 14, p. 490. All references to Jefferson's writings are to this edition unless otherwise specified.

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academic and legal training impressed upon him the "commercial principles which bring wealth into our country and the constitutional security . . . for the enjoyment of that wealth." [3] Consequently, he opposed parliamentary restrictions on the trade and industry of the colonies and defended trade with the enemy. Appealing to the great principles of right and wrong which were "legible to every reader", he declared that property was held by absolute tenure. Since the original settlers conquered the country with their fortunes and lives, their heirs owned the country.[4] This worked no hardship, because the institutions and resources insured the acquisition of property by the poor but enterprising of all nations. Therefore the colonies took up arms, to defend their natural freedom and property "acquired solely by the honest industry of our forefathers and ourselves." [5]

At the same time, in accordance with mercantile doctrines, Jefferson held that the sale of Virginia's tobacco and foodstuffs to the enemy be permitted, because it brought money into the country. The increased circulation created prosperity and made possible the payment of heavy taxes.[6]

Almost as threatening to person and property as parliamentary supremacy was the supremacy of the popular state legislatures as exemplified in Virginia. Since property rested on the stability of social law, and the security and stability of society rested on the judiciary, the judges, instead of being

[3] To Robert Skipworth, Aug. 3, 1771, *Writings*, vol. 4, p. 239.

[4] "A Summary View of the Rights of British America", 1774, republished in *The Writings of Thomas Jefferson*, edited by Paul Leicester Ford (New York and London, 1895), vol. 1, pp. 429-447.

[5] Draft of "Declaration on Taking Up Arms", July 6, 1775, *ibid.*, pp. 465-466, 474; and "Declaration by the Representatives of the United Colonies of North America Now Met in Congress at Philadelphia Setting the Causes and Necessity of Their Taking Up Arms", 1775, republished in *American Archives*, edited by Peter Forse, Fourth Series, vol. 2 (Washington, 1839), p. 1870. The quoted part is from those paragraphs of the latter which Jefferson claimed to be his work. Some students have asserted that the entire document was the work of John Dickinson, but this question does not involve what Jefferson believed.

[6] To Patrick Henry, Mar. 27, 1779, *Writings*, vol. 4, p. 58; to Benjamin Harrison, Feb. 7, 1781, *ibid.*, p. 352.

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dependent on the jarring interests of popular assemblies, should be made a check on them by having "life estates in their offices."[7] The right of the state judiciary to void acts of the legislature would thus be safeguarded.[8]

State institutions which interfered with the equal opportunity to acquire wealth should be discarded. Thus the feudal remnants of official church, and entail and primogeniture should be eliminated. The former created a priestly aristocracy, blinding the people to their own pecuniary interest; the latter created an aristocracy of wealth, obedient to despotism.

Slavery should be abolished because the slave had no respect for property and the master became an idle despot. But emancipation should be a gradual process. Only the newborn should be freed since they were worth little. They should be trained at state expense in industry and agriculture, then exported to a distant colony and an equal number of whites imported presumably as indentured servants. He justified exporting the blacks on the ground that they were naturally inferior in body and mind and their incorporation would eventually lead to convulsions and exterminations.

Education should be extended to enable the mass to appreciate their interests and to create a "natural aristocracy of talent and virtue," instead of an artificial aristocracy by law. All children should receive free education in the common schools for three years. They should be taught history and the elements of morals. The former would guard them against incipient despotism; the latter would teach them that whatever their lot, their greatest happiness depended on a good conscience and freedom in just pursuits. This would be sufficient for the laboring mass. Those among the poor who were superior in talent and virtue should be subsidized by the state in the higher schools with its capstone at William and Mary. Here was taught what Jefferson considered the outstanding works in the field of economics and philosophy—Adam Smith's

[7] To George Wythe, July 1776, *Writings*, vol. 4, p. 258.

[8] Jefferson took for granted that the state courts had this right. To James Monroe, Jan. 8, 1811, *Writings*, vol. 19, pp. 181-182.

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Wealth of Nations and the common sense philosophy of Smith's disciple, Dugald Stewart.

Only the abolition of the feudal remnants was secured, but still the scheme of things, at least for the consumption of foreigners, was, according to Jefferson, rather ideal. Hardly any poverty existed because lands were available. The few beggars were foreigners in the towns. But such a happy state of affairs, under a government formed on the principles of natural reason, could continue only as long as the country remained agricultural.

This agrarian basis was sound on both economic and political grounds. The agricultural people were God's chosen people. They were incorruptible because they were not dependent on the caprices of customers. Manufacturers, by creating dependence, were responsible for mobs, corruption, servility and ambition.

European economists such as Adam Smith, said Jefferson, taught that every nation should supply its own manufactures, but overlooked the fact that the same immutable principles of political economy gave different conclusions in this country because circumstances were different. Europe, having no available lands, must turn to manufactures to employ the surplus labor. Therefore let the workshops remain in Europe, and the agricultural surplus here be exchanged for manufactures.[9]

Dependence on markets for the agricultural surplus might be an afterthought in Jefferson's philosophic meditations on the agricultural state, but he was aware of its reality. His primary occupation as minister to France from 1784 to 1789 was to acquire markets. He informed the French authorities that France was wise to prohibit foreign manufactures, but American goods were non-competitive raw materials and foodstuffs. France would even find it profitable to subsidize manufactures in order to increase employment in both countries.[10]

[9] "Notes on Virginia", 1784, republished in *Writings*, vol. 2, pp. 184, 191, 201, 203-207, 225-230.

[10] To the Count de Montmorin, Oct. 23, 1787, *Writings*, vol. 6, p. 345; to the Count de Vergennes, Aug. 15, 1785, *ibid.*, vol. 5, p. 75; annexed material in letter to John Jay, Nov. 19, 1788, *ibid.*, vol. 7, pp. 218-219.

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Jefferson used similar mercantile doctrines to obtain access to the neighboring colonies of the European Powers. The payment of pre-war debts owed British merchants should be conditioned on free trade with the British West Indies, for the debts were incurred when the states enjoyed the advantages of the colonial system and the only way to meet the unfavorable and consequently unprofitable trade with England was through the British West Indies trade.[11]

As a last resort, should the Confederation be forbidden entry, force might be used. The American government was following a policy of peace and commerce and no participation in European quarrels, he said, but the prospective surplus of production over European demand necessitated the forcible assertion of the country's natural right to trade with these areas.[12]

Rather intangible, but in accordance with Jefferson's pecuniary logic, was his belief that commercial privileges could be obtained by raising the public credit, because the public credit was a barometer of national strength and wealth. Therefore public debts should be paid in full even though original holders had been forced to sell at a considerable discount. The proposed import duty to pay the debts was sound, for the funds thus obtained would make the debts negotiable and thereby raise their price. Foreign creditors, and thus foreign nations, would be further impressed with the strength of the Confederation if creditors were given instantaneous recovery against debtors on pain of imprisonment. This would also tend to check luxury which destroys republican government.[13]

Jefferson approved the strong national government embodied in the proposed new constitution. He expected it to have absolute power over the commerce of the states and such control of all the resources of credit and taxation as to maintain the national credit. During European wars this power

[11] To John Jay, Apr. 23, 1786, *Writings*, vol. 5, p. 300.

[12] To George Washington, Dec. 4, 1788, *Writings*, vol. 7, p. 224.

[13] To N. and J. Van Staphorst, July 30, 1785, *Writings*, vol. 5, p. 45; to David Hartley, Sept. 5, 1785, *ibid.*, p. 122; to A. Stuart, Jan. 26, 1786, *ibid.*, p. 259.

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could be utilized to obtain commercial privileges as the price of neutrality. Property rights, especially of foreigners, would be protected by the independent federal judiciary against the tyranny of the state legislature, which controlled the state judiciary.[14]

The tyranny to be feared, said Jefferson, was that of the legislatures. Later it might be that of the executive, but since the rising generation was educated in the precepts of republicanism, apostacy to royalism was impossible and unprecedented. He especially approved the veto by the executive conjointly with a third of either house, "though I should have liked it better had the judiciary been associated for that purpose, or invested separately with a similar power." He considered *The Federalist,* which was primarily Hamilton's work, the best treatise on the practice of government, just as Locke's treatise was perfect on theory.[15]

Anxious to show the skeptical Europeans that all was well in the United States and to prevent the proponents of an aristocratic national government from having their way, Jefferson expressed some radical sentiments on Shays's rebellion in Massachusetts, in his plea for leniency toward the "rebels". The rebellion was caused, he said, by the vigorous execution of private debts and heavy taxation in a period of commercial depression. Although this did not justify the rebellion, for the rebels had only themselves to blame for becoming too heavily indebted, they would have realized that peace and order were to their interest, had they been enlightened as to the facts. Thus while occasional resistance and perhaps some bloodshed were as good in the moral world as storms in the physical, they would not occur if the people were given a proper education.[16]

[14] To James Madison, June 20, 1787, *Writings*, vol. 6, p. 132; to George Washington, Dec. 4, 1788, *ibid.*, vol. 7, p. 224.

[15] To James Madison, Dec. 20, 1787, *Writings*, vol. 6, p. 387; Mar. 15, 1789, vol. 7, p. 312; Nov. 18, 1788, vol. 7, p. 183.

[16] To David Hartley, July 2, 1787, *Writings*, vol. 6, p. 150; to Colonel William Smith, Nov. 13, 1787, *ibid.*, pp. 372-373.

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Jefferson still retained his commercial-agrarian ideal. The people would remain virtuous only as long as the principal object was agriculture, and lands were available, for the moderate, sure income of husbandry begot permanent improvement and orderly conduct in private and public life. When the population should mass in the cities, then the people would become corrupt and eat one another as in Europe. Fortunately, said Jefferson, manufactures would not get a foothold in his generation.[17]

Merchants and commerce were also not altogether desirable. Merchants were weak in virtue and *amor patriae*. Commerce, beyond that needed to export the surplus produce, fostered a gambling spirit in society. But eventually agricultural production would exceed both the foreign and domestic demand; the surplus population should then enter navigation and commerce. Furthermore, since a good proportion of the people were by habit and taste addicted to these occupations, a faithful representative must follow not what was sound in "theory" but what was practicable and protect these interests.[18]

In contrast to the Confederation with its "lovely equality which the poor enjoy with the rich" were the pomp, wealth and privileges of the aristocracy, and the poverty of the mass in Europe.[19] In France the feudal restrictions and perquisites created great and unnatural inequality of wealth. Since the land was concentrated in few hands and much of it retained for game preserves, the largest class was the starving unemployed. In this case the laws of property had been so developed that they violated natural rights. Private property was necessary for efficient production, but if those excluded from the cultivation of land were not provided for, they reacquired the fundamental right to labor the earth. The ideal situation in America of small proprietors could be established in France by equal division of the estates among the heirs, aided at first by a progressive tax above the exempt minimum.[20]

[17] To James Madison, Dec. 20, 1787, *Writings*, vol. 6, pp. 392-393; to George Washington, Aug. 14, 1787, *ibid.*, p. 277.

[18] To John Jay, Aug. 23, 1785, *Writings*, vol. 5, p. 93.

[19] To T. J. Bannister, Oct. 15, 1785, *Writings*, vol. 5, p. 187.

[20] To Reverend James Madison, Oct. 28, 1785, *Writings*, vol. 19, pp. 17-18.

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Reforms in the political organization of France would be in order, certainly as long as the consequences were stable commercial regulations by law instead of arbitrary regulations, changing at the whim of a despot. Jefferson warned the French reformers that the people, habituated to despotism, were not ready for full liberty. The people should attempt to reacquire gradually their ancient liberties by progressively granting the king more funds in exchange for more privileges.[21] But he wrote home that payment of the country's debt to France, in the royal government's present embarrassment, might lead to privileges for American commerce in the French West Indies.[22] On the other hand, the price-fixing policy of the royal authorities, in order to prevent riots, violated the course of real values which were established by the market. However, the French government could relieve the discontent and save money by permitting the importation of more American cheap foodstuffs.[23]

Jefferson disapproved of revolution in Europe, but not in Europe's colonial possessions in America where the United States might gain lands and markets. He informed would-be revolutionists in these areas that officers and men could be obtained in the Confederation by appealing to their ideals and pecuniary interests. He expected that eventually all of North and South America would be peopled from the United States as it increased in strength.[24]

As the first Secretary of State of the United States, Jefferson vigorously pushed the interrelated policies of acquiring lands and markets. Having met the Physiocrats, authors of "excellent theoretical treatises", he now had further arguments for pushing markets for agriculture. The most desirable pros-

[21] To Count Moustier, May 17, 1788, *Writings*, vol. 7, p. 14.

[22] To John Jay, Sept. 19, 1787, *Writings*, vol. 7, p. 310.

[23] To John Jay, Sept. 30, 1789, *Writings*, vol. 7, pp. 481-482. Opposition to a free market in corn stamped Neckar as a treasury head not a statesman (to John Jay, June 17, 1789, *ibid.*, p. 383).

[24] To John Jay, May 4, 1787, *Writings*, vol. 6, p. 119.

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perity was that based on agriculture, "because to the efforts of labor it adds the efforts of a greater proportion of soil." [25]

From Spain, Jefferson claimed the right to navigate freely the Mississippi, for the surplus production of the western citizens demanded easy access to the foreign markets. Spain must cede New Orleans and the territory on the lower east bank of the river, because the natural right of free navigation implied the natural right of the means to maintain that end. The discussions during the Revolutionary War to abate American claims were due to the supreme law of necessity, he said, but now the country could assert its natural rights. If Spain acquiesced, the United States would guarantee her possessions on the western side, for the United States would for ages have no interest to cross the river. Should Spain waiver, the government would not be responsible for the actions of its western citizens.[26]

War between Spain and England might solve the problem. In such a contingency Spain should be told to grant the territory independence, lest England seize it; and Spain's ally, France, should even see the wisdom of giving the territory to the United States in order to lessen the number of potential enemies. England, on the other hand, should be warned that seizure of the territory would be considered an unfriendly act. The necessary increase in the public debt was a lesser evil than loss of markets and eternal expense for protection against an overgrown neighbor.

[25] "Circular to American Consuls", May 30, 1792, *Writings*, vol. 8, p. 352. The statement might easily have been taken from *The Wealth of Nations*. See Cannan edition, p. 344.

The antiquarian-minded historians of economic thought would have considerable difficulty in classifying Jefferson. Depending on circumstances, he utilized the doctrines of mercantilists, physiocrats or Adam Smith, and sometimes all three at once. But what may appear to be inconsistency in Jefferson may after all merely serve to raise the question as to whether the differences between the various schools are as substantial as is thought.

[26] "Report Relative to Negotiations with Spain to Secure the Free Navigation of the Mississippi and a Port on the Same", Dec. 22, 1791, *Writings*, vol. 3, pp. 164-198; "Heads of Consideration on the Conduct We Are to Observe in the War Between Great Britain and France" and "Heads of Consideration on the Navigation of the Mississippi", Aug. 22, 1790, *ibid.*, vol. 17, pp. 299-307.

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On the other hand, European wars must not be allowed to interfere with American prosperity. The government, he said, could not stand idly by as industry was suspended and unemployment created, by the interference of foreign powers with the natural rights of the country and its citizens. England's interference with American food exports to the enemy violated the natural right of neutrals to sell in the best market. England's complaints against the sale of military supplies to the enemy were unjustified, since war was no reason for deranging men's occupations. Suppression of the traffic would violate the right of every man to follow his lawful calling.[27]

Since justice was the mechanical result of interest, Jefferson felt that offensive practices could be prevented by recourse to discriminatory acts, including tariffs, but he was ready to use arms, if the warring nations refused to let the country reap the "golden harvest" of a policy of neutrality.[28]

He approved or disapproved financial policies in accordance with what he conceived to be the interests of agriculture. But he still believed that those interests were subserved by policies which strengthened the national credit, and brought in specie. Thus, at first, he approved Hamilton's funding measure for full payment of the public debt, and felt that funds should be kept at Amsterdam to purchase the stock, when it fell below par.[29] Later he asserted that Hamilton's other great measures threatened the agricultural interest and republican government. The National Bank Act providing for a privately managed national bank, with its capital primarily in funded debt, and with its bank notes exclusively receivable for government dues, in addition to specie, placed the circulating medium of the country under the control of the speculative interests. The agricultural interest would be at the mercy of the Bank, and since agri-

[27] To William Short, July 28, 1791, *Writings*, vol. 8, p. 219; to Thomas Pinckney, Sept. 7, 1793, *ibid.*, vol. 9, pp. 221-223; to George Hammond, May 15, 1793, *ibid.*, pp. 90-91.

[28] To James Madison, March 1793, *Writings*, vol. 9, p. 34. "Report on the Privileges and Restrictions on the Commerce of the United States in Foreign Countries", Dec. 16, 1793, *ibid.*, vol. 3, pp. 275-283.

[29] To Alexander Hamilton, Mar. 27, 1793, *Writings*, vol. 9, p. 58.

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culture was the only productive interest, the profits of the Bank would be at the expense of agriculture.

The value of specie which, as Hume had taught him, was fixed by the natural laws of commerce and abounded in each country according to its commercial needs would be drained from the country. An unstable medium, unsettling agricultural values and commerce, would be substituted for a stable one maintaining equilibrium. The paper, by raising labor costs and prices, would destroy the foreign markets. The banknotes would inevitably be issued in excess and the resulting bankruptcy would destroy the country. However, if the notes, like the French *Assignats* based on land, were based on real values—deposits of wheat and tobacco—they would be secure, and would "befriend the agricultural man." [30]

Similarly, Hamilton's advocacy of bounties for manufactures under the general welfare clause of the Constitution would be at the expense of agriculture, and open the way to usurpation and despotism.

As Jefferson became more deeply involved in controversy with Hamilton, he even attacked the public debt as unconstitutional and a tax on agriculture. Both the bank and funding acts were passed by a corrupted legislature, for the benefit of stock jobbers who were making a lottery of the real property of the country, the property of the agricultural class. The acts drained the necessary specie from agriculture for use in speculation and thereby demoralized the industry of the country. Debtor South would be arrayed against creditor North, and the Union would be dissolved.

Yet Jefferson insisted that while the acts were unconstitutional and made for the acquisition of wealth by government created privileges rather than by industry, still their terms must be rigorously observed. When the acts expired, they must not be renewed, but until then, the measures were sacred obligations and tampering with them threatened the national credit.

[30] To James Madison, July 3, 1792, in Ford edition, vol. 6, p. 98; to George Gilmer, Jan. 28, 1793, *Writings*, vol. 9, p. 143.

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Almost the entire academic world called Jefferson a Jacobin.[31] The wealthiest man in the country, Charles Carroll, said that Jefferson was a "theoretical and fanciful man" holding out equal division of property to "the indolent needy."[32] Yet Jefferson was unfolding a philosophy that bulwarked the broad Hamiltonian objectives in the name of liberty.

Jefferson claimed that his Federalist opponents, the Tories, were the wealthy, nerveless and corrupt who sought security in a strong executive; the sound Republicans were the virtuous, healthy and enterprising who wanted government confined to preventing men from injuring one another. In this rising nation, "possessing a chosen country with room enough for our descendants to the hundredth and thousandth generation", popular insurrections would not occur so long as the people were protected in the unrestrained exercise of their talents. Enterprise throve best when left free to individual initiative, and government should protect the enterprises only from casual embarrassments.[33]

Upon entering the presidency in 1801, Jefferson did not discard Hamilton's policies. The public debt, he said, was the first charge on the government's revenues.[34] Critics called him a hypocrite, but his supporters praised him for respecting the national good faith and the "eternal mandates of justice." By eliminating the Hamiltonian measures, Jefferson could have lowered taxes and crushed the rising aristocracy, but he had gallantly refused to listen to this spirit of "unprincipled ambition, of demoniacal revenge."[35]

[31] This characterization was a tradition in the higher learning throughout the nineteenth century. The best exponent of this attitude was Francis Lieber. See Joseph Dorfman and Rexford Guy Tugwell, "Francis Lieber: German Scholar in America", *Columbia University Quarterly*, September and December 1938, pp. 159-190, 267-293.

[32] Charles Carroll to Alexander Hamilton, Apr. 27, 1800, in Kate M. Roland, *The Life of Charles Carroll of Carrollton, 1737-1832* (New York and London, 1898), vol. 2, pp. 235-239.

[33] To Joel Barlow, May 3, 1802, *Writings*, vol. 10, pp. 320-321; Inauguration address, Mar. 4, 1801, *ibid.*, vol. 3, p. 320; First Annual Message, Dec. 8, 1801, *ibid.*, p. 337.

[34] To Albert Gallatin, Apr. 1, 1802, *Writings*, vol. 10, p. 307.

[35] *A Defense of the Administration of Thomas Jefferson* by Curtius (John Taylor) taken from the *National Intelligencer* (Washington, 1804), p. 52.

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To Congress, controlled by his party, Jefferson left the problem, of "how far the monopoly which prevents population should here be so guarded against and actual habitation made a condition of the continuance of title to lands purchased from the government."[36] Congress left the old scheme of land speculation intact.

The policy of providing additional lands and opportunities for the security of republican government was vigorously prosecuted by Jefferson. The Indian tribes complained that the government, instead of leaving their lands inviolate, as promised, was forcing their sale, but Jefferson answered that "the right to sell is one of the rights of property." Therefore, forbidding sale "would be a wrong to your nation."[37] He informed the government agents among the Indians that their objectives should be the acquisition of lands, peace and the encouragement of agriculture. However, if an agent failed in the first, he would be regarded as being more friendly to the Indians than to the United States.[38] It would be best for the Indians to exchange surplus lands for agricultural implements, and thus engage in further barter trade with the United States.[39] The Indians' habits and antiquated customs, however, dominated good sense and innovation.

Having seen in Europe the use of government scientific expeditions to acquire territories and business opportunities, Jefferson authorized the famous Lewis and Clark expedition.[40]

[36] Second Annual Message, Dec. 15, 1802, *Writings*, vol. 3, p. 343.

[37] To Brother Handsome Lake, Nov. 3, 1802, *Writings*, vol. 16, p. 395. Henry S. Randall, Jefferson's eulogistic biographer, stated that "the apparent equivalent" for Indian lands "would now in many cases appear but little more than nominal." *The Life of Thomas Jefferson* (New York, 1858), vol. 3, p. 39.

[38] To Andrew Jackson, Feb. 16, 1803, *Writings*, vol. 10, pp. 357-359.

[39] This led Jefferson's friend, the French economist, J. B. Say, to describe the policy in his popular *Treatise on Political Economy*, as giving the United States the "honor of proving experimentally that true policy goes hand in hand with moderation and humanity." Jefferson, on the appearance of the book, suggested it be read instead of *The Wealth of Nations*, because it presents the same principles "in a shorter compass and more lucid manner". To John Norvell, June 11, 1807, *Writings*, vol. 11, p. 223.

[40] He informed Congress that the primary objective was to find fur-trading

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Hearing that Spain was transferring New Orleans together with the rest of Louisiana and Florida to France, he warned that this would not be tolerated, since the produce of almost half of the territory of the United States passed through New Orleans. Spain's weakness, he said, would soon force her to cede the territory, but powerful France was another story. Besides, permanent peace between the United States and France would be impossible if the two countries were such close neighbors, since the French were a reckless, impetuous people. Therefore, the moment France occupied the territory, the United States would join England to control this continent and despotically rule the seas.[41]

When Napoleon offered to sell all Louisiana to the United States, Jefferson called on Congress to supply the funds. The Constitution, he argued, did not provide for holding foreign territory or incorporating a foreign nation into the Union, but Congress must overlook metaphysical subtleties, and expect the assent of the people to what the people themselves would do, if they could.

The new territory, Jefferson claimed, provided opportunities for uplifting the uncivilized groups. Indians, dispossessed of their lands on the east side of the Mississippi, could be exported to the territory to begin an agricultural life; free Negroes and rebellious slaves could also be sent there under a system of indentured servitude.

Since the French inhabitants were habituated to despotism, they still required tutelage, according to Jefferson, as far as political rights were concerned. In order that the country might eventually develop into a thoroughgoing republican area, thirty thousand citizens should be sent to the territory at public expense and given lands in return for military service.[42]

opportunities for private enterprise. Since "the interests of commerce place the principal object within the constitutional powers and care of Congress", the expenditure was constitutional. "Confidential Message Recommending a Western Exploring Expedition", Jan. 18, 1803, *Writings*, vol. 3, p. 493.

[41] To Robert E. Livingston, Apr. 18, 1802, *Writings*, vol. 10, p. 312.

[42] To John Breckenridge, Aug. 12, 1803, *Writings*, vol. 10, p. 411; to John Dickinson, Jan. 13, 1807, *ibid.*, vol. 11, pp. 136-137.

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War for additional territory would be justified in order to obtain "reparation for the past and security for the future". In a war with Spain, the regular army would seize Mexico with its rich mines, privateers would prosper by plundering the commerce and coasts of the Spanish possessions, and Cuba, valuable for sugar, would enter the Union. Canada would be the fruit of a war with England. By acquiring Canada and Cuba the United States would have natural protection without the need of a navy, and further expansion of the country would be unnecessary. "We should have such an empire for liberty as she has never surveyed since creation." [43]

Jefferson's agricultural economics was slowly modified by the changing circumstances. He did not abandon, at least formally, his view that the agricultural state was the ideal state, if only Europeans would grant free access to markets. He praised highly Malthus' *Essay on Population,* which attributed England's distress to redundant population, but he said that Malthus' conclusions did not apply to the United States because the circumstances were not the same. By employing all laborers here in agriculture, the surplus produce could be exchanged for the manufactures of the excessive population of Europe. Moral duty and interest were thus in harmony. But he felt that his early strictures on manufactures were misunderstood. Here manufacturers were as comfortable and independent as the agriculturists, because they could turn to agriculture, if the other classes attempted to reduce them to the minimum of subsistence.[44]

Jefferson praised manufactures to secure support for his restrictions on navigation designed to force the warring powers to stop interfering with agricultural exports. He was attempting to align New England manufacturers with the southern agricultural interest, against the New England maritime interest, the carriers of the world.

[43] To Pierre Samuel du Pont de Nemours, July 14, 1807, *Writings,* vol. 11, p. 274; to James Madison, Aug. 16, 1807, *ibid.,* pp. 326-327; to James Monroe, Jan. 28, 1809, *ibid.,* vol. 12, pp. 241-242; to James Madison, Apr. 27, 1809, *ibid.,* p. 276.

[44] To J. B. Say, Feb. 1, 1804, *Writings,* vol. 11, pp. 1-3; to Mr. Lithson, Jan. 4, 1805, *ibid.,* p. 56.

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By the time of his second inaugural address in 1805, Jefferson had come around formally to Hamilton's position. Eliminating import duties would destroy the advantage of domestic manufactures over foreign goods. Instead, by a constitutional amendment, the expected surplus revenues could provide bounties to manufacturers and education and internal improvements for the benefit of the farmer. But the expansion of manufactures should be limited to the utilization of the country's raw materials.[45] On the other hand, New England merchants opposed the restrictions on commerce, he said, because they wanted to sacrifice agriculture and manufactures to peace-disturbing "proturbant navigation" and convert this agricultural country into a vast Amsterdam.

But war against England came in 1812 under his protegé, President James Madison, and Jefferson justified it on the familiar ground that if government did not protect the persons and property of its citizens in their lawful callings, the foundations of the social compact would be shattered.[46]

The United States would win the war, because of its republican government and the superior material condition of its people, which was both a cause and effect of its ideal government. In England the government was controlled by aristocracy and wealth; consequently the middle or artisan class was forced to the maximum of strain and the meanest subsistence in the desperate competitive struggle to sell its products. The largest class was the "starved and rickety paupers and dwarfs of English workshops." These provided the cheap army and navy material necessary to wage war abroad for the profits of contractors and to shoot the starving, rioting laborers at home.

In the United States land was available to everyone; fortune and fame were open to talent and enterprise. The demand for

[45] To Dr. Maese, Jan. 15, 1809, *Writings*, vol. 12, p. 230; to Thomas Leiper, Jan. 21, 1809, *ibid.*, p. 237; to John Jay, Apr. 7, 1809, *ibid.*, p. 271.

[46] To James Maury, Apr. 25, 1812, *Writings*, vol. 12, p. 145. Opponents of the war were characterized by Jefferson as the Marats, Dantons and Robespierres of America, seduced by English money and aristocratic ideas. To Lafayette, Feb. 4, 1815, *ibid.*, vol. 14, p. 251.

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labor was so great that moderate work brought sufficient income to rear a large family at a high standard of living and to save for old age. Prolific marriages and equal division of intestate estates prevented the growth of large fortunes and created relative equality. Thus practically all engaged in labor, manual or professional. Even the condition of the slaves was better than that of the English laborers. The slave suffered only physical coercion, but equally severe was the moral coercion exercised by the English employer over the laborer.

Since here the laboring class generally possessed property and cultivated the land, the people could be trusted with freedom and the control of government. The wealthy had nothing to fear, since enough of their class got into every branch of government to protect their interests. In Europe the people could not be given these powers, for they were the *cannaille,* the product of workshops, and would pervert government to the destruction of everything public and private.[47]

Jefferson did not, however, overlook realities. In the midst of the war, he wrote J. B. Say that changed circumstances forced him to agree that the manufacturer should be planted by the side of agriculturist. He regretted the change from a peaceful and agricultural state to a military and manufacturing one, but preservation came before profits. Should the country reach a point where manufactures exceeded domestic consumption, then the old question of disposing of the surplus would have to be faced. The answer would depend on developments, for in the complicated science of political economy, " no one axiom can be laid down as wise and expedient for all times and circumstances." [48]

The war, however, must not interfere with agricultural prosperity. As in the Revolutionary War, Jefferson maintained that exports of produce to the enemy should be allowed.

[47] To Thomas Cooper, Sept. 10, 1814, *Writings*, vol. 14, pp. 181-185; to John Adams, Oct. 28, 1813, *ibid.*, vol. 13, pp. 397, 401-402.

[48] To J. B. Say, Mar. 2, 1815, *Writings*, vol. 14, p. 259; to Benjamin Austen, Jan. 9, 1816, *ibid.*, pp. 387-393.

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The war would be popular only as long as markets were open, for good prices made the people cheerful.[49]

When planters complained of lack of markets for wheat and tobacco, Jefferson asserted that the Virginia act suspending judgments did not violate the constitutional provision that states shall not impair the obligations of contract. Since the debtor's difficulties were caused by the lack of specie, the legislature merely acted as an umpire when a literal fulfilment of contract was impossible, or "if enforced would produce a disproportion between the subject of the contract and its price which the parties did not contemplate at the time of the contract." [50] But distress would not excuse suspending the sacred payments on the public debt in specie, for the necessity of maintaining the public credit was greater than any other.[51]

From premises based on the importance of specie as capital Jefferson deduced his scheme of war financing, which would not burden agriculture but would maintain its markets. In an agricultural country the only available capital for government loans was the circulating specie. The government should in effect acquire this fund by issuing an equal amount of paper currency. In peace time, taxation of commerce would provide for redemption and the automatic return to the solid, intrinsic medium of specie. But this fund, said Jefferson, had been usurped by the private banks with note-issuing power. The monopoly of the circulating medium, possessed by the now expired Bank of the United States, had been replaced by that of a mass of private state banks. Their issue benefited only the limited liability bank companies and, like the notes of the national bank, were a tax on agriculture. They could not create industry since man power was not available, and specie was not increased.

These banks should be eliminated but the state legislatures would never take the initiative, because "personal motive can be excited through so many avenues to their will, that in their

[49] To James Ronaldson, Jan. 12, 1813, *Writings*, vol. 13, p. 206.

[50] To W. H. Torrance, June 11, 1815, *Writings*, vol. 14, p. 302.

[51] To William Short, Nov. 28, 1814, *Writings*, vol. 14, p. 217. This meant in that day, payments also to holders in the enemy state.

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hands it will continue to go from bad to worse, until the catastrophe overwhelms us." A constitutional amendment would take too long, so pressure should be brought to bear on the states to force them to grant Congress the exclusive right to issue paper. However, the charter rights of the existing banks must be allowed to run their full terms.

This did not mean, argued Jefferson, that all banks should eventually be abolished, but only that banking should be restricted to those having the natural right to be money lenders; namely, those with money to lend. Consequently banks without the note-issuing power should be encouraged. These modern banks of discount and deposit were proper banks, because they lent their own specie capital. Discounting short-term commercial bills, they were absolutely safe and a convenience to merchants and individuals.

Congress and the president were followers of Jefferson, but they saw the only remedy for the evils of paper money in a Hamiltonian second United States Bank, ostensibly to control the paper issues of the state banks. When the measure was passed, Jefferson offered no criticism, but he attributed the collapse of the post-war prosperity to the withdrawals of paper money by the state banks and the "despotic" United States Bank. Such withdrawals reduced the circulating medium below the amount that would have existed with specie. Consequently the Virginia legislature must again pass stay laws, lest local insurrections occur over the great sacrifice of the property of the country people and the merchants with real capital.[52]

Similarly, Jefferson felt that the rights of property in slaves must be vigorously protected. Missouri, part of the Louisiana Purchase, should be admitted as a slave state, because the diffusion of slavery, he said, would hasten its end by spreading the cost of emancipating the slaves. The critics were mere speculative theoreticians and Tory Federalist disunionists.

[52] To John W. Eppes, June 24, Nov. 6, 1813, *Writings*, vol. 13, pp. 273-277, 427-431; to Henry Dearborn, July 5, 1819, *ibid.*, vol. 19, p. 272; to William C. Rives, Nov. 28, 1819, *ibid.*, vol. 15, pp. 230-232.

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Jefferson finally held that emancipation was a question that concerned only the masters and slaves. Third parties had no right to intervene, for actual property had been lawfully vested in Negroes and "who can lawfully take it from the possessors?" [53] Jefferson's earlier innocuous emancipation sentiments were excused by his followers "as the effusions of the speculative philosophy of his young and ardent mind . . . which his riper years have corrected." [54]

Having never really surrendered his anti-tariff attitude, Jefferson on the return of peace was shocked that the West in exchange for internal improvements should support the tariff demands of the manufacturing North. He had done much for the West, because he had expected from that area "rational ideas" and the support of orthodox principles. As a new and consequently unsophisticated country, it should have been, as Locke taught, free from the prejudices and vices of the older sections degraded by fantastic wealth and avarice. But enticed by sordid local interest, it was turning aristocratic and becoming the instrument of pernicious innovation.[55]

Jefferson felt that the battle against Hamiltonian ideas had to be refought. He admitted that time changed manners and customs and "so far we must expect institutions to bend to them but time produces also corruption of principles." [56] The new Federalists looked to an aristocratic government "founded on banking institutions, and moneyed incorporations under the guise of their favored branches of manufactures, commerce and navigation, riding and ruling over the plundered ploughman and beggared yeomanry." They stretched the power to regulate commerce to include unlimited control over manufactures and agriculture in order to take the earnings of the most depressed interest and give them to the most flourishing.[57]

[53] To John Holmes, Apr. 22, 1820, *Writings*, vol. 15, pp. 249-250; to Jared Sparks, Feb. 4, 1824, *ibid.*, vol. 16, p. 239; to Edward Everett, Apr. 8, 1826, *ibid.*, p. 163.

[54] Cited in W. S. Jenkins, *Pro-Slavery Thought in the Old South* (Chapel Hill, 1935), p. 63.

[55] To Clairborne W. Gooch, Jan. 9, 1826, *Writings*, vol. 16, pp. 151-152.

[56] To Judge Spencer Roane, Mar. 9, 1821, *Writings*, vol. 15, p. 325.

[57] To William G. Giles, Dec. 26, 1825, *Writings*, vol. 16, pp. 147, 149-150.

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His faith in political machinery to save republican government grew dim. He had once thought that the view that Congress might be the final judge on the Constitution because of its impeachment power was worthy of respectful consideration, but now Congress was passing unconstitutional measures like the tariff. The Supreme Court was destroying the Constitution, by claiming the exclusive right to determine the constitutionality of laws and thereby voiding acts of southern legislatures to prevent the expansion of national financial corporations chartered by his party in Congress.[58]

The only sound remedy lay as of old in education. Jefferson persuaded Virginia to establish a state university because it was foolish for the state to lose money to northern institutions where its sons were educated in hostile, Tory, corrupt ideas. For professors in subjects other than the social sciences, he unsuccessfully sought northern-born Harvard men, and then turned to Dugald Stewart for British teachers, for Great Britain was "the land of our own language, morals, manners and habits."

The university, said Jefferson, would be devoted to unlimited free inquiry, but to prevent heresies in government the university authorities in selecting the professor of the social sciences must be "rigorously attentive to his political principles." The diffusion of "heterodox ideas" was to be prevented further by "a previous prescription" of the textbooks.[59]

Jefferson had ready the right textbooks, written along the lines of Locke in government and Smith, Say and Malthus in economics. He had translated Count destutt de Tracy's *A Commentary and Review of Montesquieu's Spirit of Laws* and supervised the translation of Tracy's *Treatise on Political Economy*. He heard of Ricardo's *Principles of Political Economy and Taxation,* which was fundamentally similar to the works of his favorite authors, but he thought it had heterodox ideas on the legitimacy of rent.[60]

[58] To W. H. Torrance, June 11, 1815, *Writings*, vol. 14, p. 305; to Judge Spencer Roane, Sept. 6, 1819, *ibid.*, vol. 15, pp. 212-213.

[59] To Dugald Stewart, Apr. 26, 1824, *Writings*, vol. 18, p. 332; to James Madison, Feb. 17, 1826, *ibid.*, vol. 16, p. 156, Feb. 3, 1825, *ibid.*, p. 104.

[60] Members of Congress after reading McCulloch's laudatory review of

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Jefferson did think, however, that Tracy's lengthy introductory discussion in his economics treatise on the origin and rights of property from men's propensities might be skipped by the reader not interested in erudite, metaphysical discussions of something which was common sense. But the consequences of this premise he wanted clearly stated. So he intended to include a note in the treatise to the effect that the use of the taxing power to correct inequalities of wealth violated the first principle of society, "the guarantee to every one of a free exercise of his industry and the fruits acquired by it." Such taxation robbed the virtuous of the fruits of the industry of themselves and their fathers, for the benefit of the less virtuous.[61] It might be thought that Jefferson had forgotten that he had advocated such taxation in France, but he believed with Tracy that vast amounts of rich land were available in the West without paying rent.

In his last days he carried the principles of the free acquisition of wealth to such an extreme as to contradict earlier sentimental objections to certain types of enterprise. In his plea to the legislature for a lottery to sell his property, he argued that all pursuits of industry from farmer to merchant were games of chance, and "every one has a right to choose for his pursuit such one of them as he thinks most likely to furnish him subsistence."[62]

He could even now view the seaport towns as the centers of wealth, the torchbearers of civilization. The history of man's progress could be seen by starting with the Rocky Mountain savages in a state of nature. Then came "our semi-barbarous citizens, the pioneers of the advance of civilization", followed by gradual stages of improving man until "his as yet most improved state in our seaport towns". The march of civiliza-

Ricardo's book in the *Edinburgh Review* subscribed for half of a prospective American edition; Jefferson read the same review and came to the conclusion that because of the book's "muddy reasoning" Ricardo's reputation would fall as soon as the book was read (Correspondence in Gilbert Chinard, *Jefferson et les Idealogues* [Baltimore, 1825], pp. 185-187). Ricardo praised Tracy's book as a "useful and able treatise."

[61] To Joseph Milligan, Apr. 6, 1816, *Writings*, vol. 14, p. 466.

[62] "Thoughts on Lotteries", Feb. 1826, *Writings*, vol. 17, p. 449.

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tion advanced from the seaport towns, passed over the country like a cloud, increased the people's knowledge and improved their condition.[63]

At the same time, he did not overlook the uses of empire in safeguarding republican government and the agrarian ideal. Interest and justice, he wrote, called for the independence of South America. Eventually all America should form one coalition, for America, rich in resources, could support an increasing population, but Europe, poor in resources, must have wars to limit numbers.[64]

The Hamiltonian and Jeffersonian ideologies had so fused in current political and economic philosophy that on Jefferson's death in 1826, the president of the second Bank of the United States delivered the eulogy before the American Philosophical Society.[65]

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[63] To William Ludlow, Sept. 6, 1824, *Writings*, vol. 16, p. 25.

[64] He furnished President James Monroe the substance of what became known as the Monroe Doctrine, and urged him to issue the manifesto in 1823. To James Monroe, Feb. 4, 1816, *Writings*, vol. 14, p. 433, Oct. 24, 1823, vol. 15, pp. 477-480; to William Short, Aug. 4, 1820, *ibid.*, p. 263.

[65] Nicholas Biddle, *Eulogium on Thomas Jefferson*, delivered before the American Philosophical Society on the eleventh day of April 1827 (Philadelphia, 1827).

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PEACE OBJECTIVES OF EUROPEAN TRADE UNIONISM: FIRST APPROXIMATION

OBSERVERS have noted that in the present European conflict many lessons learned in the last war were immediately applied—or applied even before the war had begun. This time the British adopted conscription well in advance of the opening of hostilities; last time, months of fighting passed before men were compulsorily enrolled for military service. It is no longer a secret that in France a comprehensive series of war decrees, capable of virtually transforming French economic and social life, had been conceived, drafted, redrafted, finally revised and even printed before a single tank or airplane had crossed a hostile frontier. This war seemed to begin where the other had left off.

Nowhere was this phenomenon more clearly noted than in the field of labor relations. In Great Britain, to cite only one example, the issue of dilution,[1] so bitterly contested during long months in the last conflict, was, this time, put on the plane of calm negotiation even before war was declared. With almost equal celerity European trade-union leaders are meeting to discuss labor's demands in the coming treaty of peace. In the last war, the first meeting of representatives of labor from the western allies to discuss peace objectives was held at Leeds, July 5, 1916. This was one of several meetings, it will be recalled, which paved the way for the appointment of a Commission on International Labor Legislation to formulate special labor clauses for the Treaty of Peace. This time, through the forum of the International Labor Organization and through the labor press, the free trade-union movement of western Europe, representing labor in the neutral countries as well as in France and Great Britain, had an opportunity to state its peace objectives six weeks after the declarations of war.

On October 10, 1939, the tripartite Emergency Committee of the Governing Body of the International Labor Organization met in Geneva. Among its tasks, some of them routine, was that of out-

[1] Humbert Wolfe defines dilution as the addition to the numbers of skilled men of large reinforcements of unskilled or lesser persons whose work they would in a sense supervise.

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lining the program of the Organization during the period of international conflict ahead. Those present included not only the members of the Emergency Committee, but many persons entitled to attend as members of the Governing Body, deputies, substitutes, or members of permanent delegations. In all, thirteen governments were represented, including delegates from Great Britain, France, South America, China, European neutrals and the United States. Five employers were present. Labor was represented by some of its most distinguished European leaders: Hallsworth, Great Britain; Jouhaux, France; Kupers, Netherlands; Mertens, Belgium; Schevenels, Secretary-General of the International Federation of Trades Unions; Serrarens, Secretary of the International Christian Workers' Federation.

In this forum, the leaders of the European trade-union movement found an opportunity to state the war aims of their followers and to outline broadly the demands they intended to make with the establishment of peace. While it is true that the item of the agenda under discussion was the war program of the International Labor Office, not the peace objectives of labor, and the spokesmen for the governments and the employers confined themselves largely to the former topic, the carefully prepared addresses of the working-class leaders indicated that the opportunity was being used to state what should be done when hostilities are over. Jouhaux suggested the broad background of labor reconstruction after the war by saying that the workers will demand: first, the reconciliation of authority and liberty; second, the harmonizing of the rights of the individual and the rights of the collectivity; third, the discovery of a method to reconcile the interests of production and the general well-being.

Kupers, of the Netherlands, made a series of specific proposals. He reminded those present that in 1919 the opportunity to make a "real peace" had been thrown away, and unless statesmen and peoples could clearly visualize the problems to be solved when the critical moment came, the opportunity would be lost again. When Part XIII of the Peace Treaty was drafted, he continued, there had been no past experience to go on, and the Constitution of the International Labor Organization had to be more or less improvised. Quite new features had been introduced, by which employers and workers were entrusted with a definite share in a drafting of social measures for the improvement of the conditions of the workers. Experience had shown, however, that this basis was not sufficiently broad to enable satisfactory solutions to be found for the problems

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which had to be dealt with. No one could deny the close interdependence of economic and social problems; and if social problems were to be dealt with satisfactorily it was impossible to leave their economic aspects out of consideration. It was not only the failure of one nation to adopt humane conditions of labor which was an obstacle to other nations desirous of improving conditions in their own country, as was stated in the Preamble to the Constitution. There were many other factors which at present prevented the improvement of the conditions of the workers in certain countries—factors of an economic nature such as premiums, open or secret subsidies, preferential freight tariffs, which played an enormous part in international competition and unfair competition. The workers were therefore immediately interested in economic questions, and the time now seemed to have come to establish the International Labor Organization on a broader basis and to enlarge its scope of activities to the economic field.

At this point Kupers more than hinted that labor would demand some sort of federal power to function among the European states. Twenty years ago, he said, this problem had been the subject of long discussions in the Committee of the Peace Conference which drew up the Constitution. Some members had been in favor of making the International Labor Organization into a sort of international parliament whose decisions would have binding force. Others had considered that the time was not ripe for an international innovation of such magnitude, and the proposals to give the Organization parliamentary powers were rejected. Since that time, the governments of many countries have intervened in social and economic life, have regulated production, exports and imports and distribution, and have imposed measures of a social character. This was especially evident in time of war and mobilization, and it might be expected that many such measures would be kept in force after the war was over. Everywhere individual interests had to yield when the general interest was at stake. He wondered whether the time had not come to extend this process from the national to the international field. For this purpose wider powers would have to be vested in the International Labor Organization, so that the ratification and application of Conventions adopted by the International Labor Conference would be made obligatory. That was, of course, a difficult problem, but it should be studied in order to find a means of preventing Conventions adopted by the Conference from remaining a dead letter. If, when peace was established, a move in the direc-

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tion of a United States of Europe, for which he fervently hoped, should be made, then this problem, which was one of the most important with which the Office would have to deal, would be easier to solve.

At the next peace conference, Kupers suggested, the Constitution of the I. L. O. might be amended to proclaim the principle of the right of workers to work or to receive adequate relief, if work could not be provided. The transformation of a war-time economy into a peace-time economy compelled consideration of such questions as the reduction of hours of work, the organization of public works, and a scheme for the industrial absorption of war veterans. He closed by pointing out that the I. L. O. was well fitted to perform the task of preparing for the realization of the peace objectives of the working class and asserted in the presence of governmental and employer delegates that the Organization must be worthy of its task if it would retain the confidence of those large masses who believed in evolutionary rather than in revolutionary methods.

Hallsworth of Great Britain [2] recalled labor's disappointment over the manner in which the issue of dilution had been settled after the last war, when he insisted that the conditions of work under which the mobilized men were employed in peace time should not be allowed to deteriorate while they were away. He felt that the continuance of the work of the I. L. O. after the war, on a more nearly universal basis,[3] was an important peace objective.

Mertens of Belgium spoke of certain economic policies which had unfavorably affected the welfare of the working class, particularly the displacement of certain industries. Before the last war, he said, Europe had possessed certain highly developed industries the products of which were sent all over the world. Several European belligerent countries had found it impossible to meet all their own requirements, and they had therefore had recourse to other countries, where new industries were set up. The result of this was that at the end of the war, certain European countries, which had possessed large industries before the war, found that many of their former markets had been lost, and had never been able to recover them.

[2] Hallsworth spoke in an international forum approximately a month before Attlee, Leader of the Opposition, laid down a series of principles of a peace settlement in an address to a private conference of Labor M.P.'s and candidates. *The Times*, London, November 9, 1939.

[3] Germany, Italy, Japan and the U.S.S.R. have either withdrawn from the Organization or have not recently sent delegations to participate in its activities.

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Furthermore, the rise of new industries had led the governments in certain countries to protect those industries. This was a policy which he had frequently denounced, since by favoring industries created to meet temporary needs, it resulted in paralyzing commercial relations between the various countries. Mertens felt that the I. L. O., in preparation for the peace conference, should devote its attention to the solution of this problem.

The demands of the labor leaders must be viewed only as first approximations. A program of expanding industrial democracy seems to take for granted a military victory of the nations now dedicated to political democracy. If a larger number of states is involved in warfare, the scope of reconstruction policies will be altered. In the report here offered, no mention has been made of governmental declarations, because governmental delegates said very little and were apparently not yet ready to discuss the problems of peace. Before labor plans can proceed much further, governments will have to say something about their reconstruction policies. The problem of how to meet labor representatives from countries in which workers do not belong to free trade unions was not broached —although Hallsworth did advocate a greater degree of universality for the I. L. O. Many questions of enormous difficulty still have to be raised and met. But it seems clear that the situation is farther advanced, today, after ten weeks of warfare, than it was after two years of hostilities in the last great war. There is, besides, an entirely new element in the situation, labor's opportunity through the International Labor Organization to present its problems at regular intervals to responsible representatives of employers and governments. If this does not lead to a brave new world, it may, at least, spare Europe much of the domestic strife that it experienced last time after the soldiers had left the battlefields.

JOHN S. GAMBS

GENEVA, SWITZERLAND
NOVEMBER 17, 1939

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REVIEWS

Value and Capital: An Inquiry into Some Fundamental Principles of Economic Theory. By J. R. Hicks. Oxford, at the Clarendon Press; New York, Oxford University Press, 1939.—xi, 331 pp. 12s., 6d.; $4.25.

This is a serious work for hardened students of advanced economic theory. In it the author—now Stanley Jevons Professor at the University of Manchester—has the boldness to undertake to formulate a unified and systematic structure of pure economic theory which deals with the field of dynamics as well as with statics, and ends by laying the groundwork for an interpretation of business fluctuations. The sustained analytical power displayed must command the highest respect. The work has the aspect of a single long chain of deduction, with guy-ropes at fairly frequent intervals in the shape of consideration of the verisimilitude of particular assumptions. (However, the author often appears satisfied if an assumption bears a moderate resemblance to some of the main features of reality.) One end of the chain is anchored to the foundations of static equilibrium; the other seems at times to be swinging loose in a gusty area where "anything can happen."

The treatment contains a good deal of mathematical reasoning, though with little burden of formulae and equations. The sentences of the text, however, often become formulae in which symbols are substituted and manipulated according to the announced properties of the categories they stand for, in a truly mathematical way. These symbols include some special terms, such as we expect nowadays from English theorists. And the reviewer has been left wondering at times whether the reasoning is strictly verbal—reading for the symbol the words in which the properties it stands for were defined—or whether it is a matter of visualizing the operation of some kind of simplified symbolical mechanism, or whether it is one thing at one time and another thing at another. It is also not wholly easy to satisfy oneself as to whether a given concept or assumption, first used in a simple case, is fully applicable when used again later, in a more complicated setting.

The author refrains from developing fully the applications of his theoretical structure to the problem of business fluctuations, in the hope of getting the benefit of criticism which could only come after

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the publication of his results in their present form, before committing himself on the wider consequences of the analysis. Yet, for the reasons suggested above, it seems likely that the first reviews may fall short of supplying adequate and definitive critical judgment, which may have to wait for that maturer testing and sifting of the material which its quality amply warrants. The present reviewer's expectation is that the author's whole system will not find complete acceptance, but that some of his particular tools of analysis will approve themselves by use, and will make their way—possibly with modifications—into general currency.

The author adopts the device of indifference curves as a substitute for the traditional marginal-utility analysis, in the attempt to avoid doubtful psychological assumptions. Yet it appears that the principal psychological assumption—that of a scale of preferences with sufficient stability to express itself in an organized and consistent budget—remains. And the concept of total utility also appears: a concept which seems more doubtful psychologically than that of marginal comparisons.

More novel, perhaps, is the distinction between the "income effect" and the "substitution effect" of a change in a particular price. This device surely deserves testing. But it may be worth noting that it involves the opposite method of analysis to that of the indifference curve; it separates conceptually two effects which actually occur together, whereas the indifference curve refuses to analyze a choice between commodities into separate "utilities" for each, despite the fact that their price-ratios, as the buyer meets them in the markets, are not one fact but two, which he often encounters at different times and in different states of mind. Does not the separation of income and substitution effects involve psychological assumptions also?

A more striking instance of this same device, of analyzing one fact into two conceptual components, is the separation (p. 266) of a rigid price into a "shadow price" (the necessary supply-price of the quantity actually sold) plus an imaginary subsidy consisting of the remainder of the price the buyer actually pays. This is an interesting expedient; but its nature and bearings seem to need fuller development.

More doubtful appears the reasoning whereby it is proved that an increase in one price must cause all other prices to increase in the same proportion, because it has previously been assumed that the system of relative prices is uniquely determined (pp. 254-8, *cf.* also

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p. 265). This appears very like a misuse of the type of reasoning whereby a tendency to stable equilibrium is demonstrated. No reason is apparent why one price should have sufficient causal efficacy to pull all the others after it, rather than being itself pulled back to its former level. Just what does the author mean to convey? These instances may perhaps serve to illustrate the kinds of reservations the reviewer has as to particular analytical methods and devices.

The author's main problem centers on prices, and equilibrium is price-equilibrium, rather than equilibrium of physical output. Thus rigid wages are presented as the best stabilizers, but at the expense of unemployment. Interest is treated in terms of risk, and the trouble of negotiating transactions of lending and borrowing, or their equivalent. An attempt is made to resolve the Austrian-Knight controversy by defining the average production-period as weighted by the discounted values of future surpluses. Perfect competition is assumed in the static treatment; and apparently in the dynamic treatment also, though the discussion of rigid prices seems to contemplate something different. The ultimate picture is one in which disturbing forces act cumulatively; and the character of the ultimate revulsion from a boom depends on whether it was checked by credit restrictions or continued until the originating wave of investment had exhausted itself. In the former case, the system may have recuperative power, while in the latter there may be no limit to contraction short of complete collapse, unless some fresh stimulus intervenes.

The book contains an unusually large number of propositions, presented with great conciseness. In fact, appraisal would have been easier if the material had been more fully developed. Professor Hicks has given us plenty to think about, and it deserves to be thought about with the greatest seriousness, even if quick and definitive appraisals may not be forthcoming.

J. M. CLARK

World Economy in Transition: Technology vs. Politics, Laissez Faire vs. Planning, Power vs. Welfare. By EUGENE STALEY. New York, Council on Foreign Relations, 1939.—xi, 340 pp. $3.00.

This study was prepared under the auspices of the American Coordinating Committee for International Studies. It is therefore directed more explicitly toward international problems than most

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current discussions of economic policy. Consideration of the basic advantages of international trade leads to conclusions that are essentially identical with the postulates of classical economic theory. But unlike the writers of the classical school Professor Staley sees the necessity of continuous and constructive action to attain the best allocation of resources and the most desirable distribution of the national income. "No society that ever existed was so completely 'laissez faire' that it lacked all conscious effort to influence the great over-all economic decisions. Neither has there ever been a society where everything economic was settled by 'planning,' with no scope at all for small decentralized initiatives and choices to influence the total result" (p. 149). The unwillingness of idealists to face the facts has resulted in nearly all instances in structures which represent the "worst of both principles", monopolistic laissez faire, and interest-group planning. Only by well-directed conscious effort may we achieve the coödination of free enterprise and social control that will guarantee the achievement of material well-being in a real world.

This "middle way" may be approached from either pole, and thus we may look forward to progressive reconciliation between the economic policies of the dictatorships and the free societies. For a considerable period, however, special adjustments will be necessary to provide "means of exchange between countries whose economic systems are organized on different principles" (p. 179). "The international economic system of the future is likely to have three sectors: the market sector, the inter-governmental sector, and the sector of international public or quasi-public authorities" (p. 231). The inter-governmental sector will include "transactions of the planned economies among themselves," and "transactions between public corporations set up in countries of mixed economy." The international authorities will function after the general fashion of recent boards for raw material control and the shipping conferences. The general features of this "grand solution" of economic organization are sketched in some detail. The discussion of policy problems occupies the last third of the book.

It is difficult to convey in a few words any adequate concept of the range of this review of current problems of economic policy. The tone of the discussion is dominated by the conviction that controlled market structures are preferable to direct centralized planning and that the market sector should be an extensive portion of the whole economy. Coördination of effort will require a vigorous monetary policy, and Professor Staley presumes that some direct control of in-

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vestment will be essential. He distrusts quotas and all systems for specifically restricted trade. Tariffs, even if at high levels, "mesh" better with the market system and are less obstructive. Monopolies must be subject to sufficient pressure to give social direction to their policies. Professor Staley favors outright government ownership or control exercised through public representatives on the board of directors. He distrusts regulation of private monopolies or cartels, on the ground that, even when regulated, such planned activity is directed toward the interests of relatively small groups.

This distrust of producer-controlled groups is perhaps derived from the concept of restrictive planning. Professor Staley characterizes as "restrictive" all activities which serve to protect areas or groups against the effects of change. It is not easy to grasp the precise meaning attached to these concepts. How are we to classify production controls designed to restrict output within limits that admit of a price structure sufficient to cover the costs of the industry as a whole? Do these costs include a return for management? Do these costs include a return for technical and functional innovation? In the modern world, costs are singularly elusive, and much of the philosophy of abundance ignores palpable cost items.

These problems are in a sense details, but they involve implicitly a judgment upon the quality of recent achievements in economic planning in the free societies. Professor Staley clearly feels that very little has yet been achieved in working out techniques of planning. Careful cost analysis might show that our techniques of systematized control are more promising than is commonly supposed. The general case in which Professor Staley is interested could be very greatly strengthened if it were shown that the free societies do not need much new social structure, but rather better judgment and skill in operating the structures which we already possess. The implications of all recent developments in economic theory lead directly to the conclusion that for two or three generations we have been treating as essentially automatic a social structure which clearly requires the exercise of considerable skill in control. We have not even been trying to acquire these skills, and now it seems more flattering to our intelligence to blame the basic structure for the mistaken operational policies of our predecessors and ourselves.

ABBOTT PAYSON USHER

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International Monetary Economics. By MICHAEL A. HEILPERIN. London, New York, Toronto, Longmans, Green and Co., 1939.—xiv, 281 pp. $4.20.

The sounds of soldiers drilling on the college lawns drift into the room where the reviewer is reading this book, while the radio brings periodic reports of the war that is already raging in Europe, so that the pattern of economic internationalism which Dr. Heilperin describes seems like the fabric of a half-remembered dream. Why bother with something so unrealistic that it depends "upon a firm determination to work the [monetary] system according to its rules and upon the friendly cooperation of the various countries in the pursuit of a common goal"? (p. 257)

Yet there will come a day when this war is over, and in that day a clear understanding of the fundamentals of monetary internationalism will be sorely needed. It were well, therefore, that somebody should be thinking of them at present, and to those who do, this volume will be very welcome.

Basically, the author's contention is that economic internationalism is the only policy that finds sanction in the theory of political economy, and that the *sine qua non* for such a policy must be found in the willingness of each country to regard the equilibrium of its balance of international payments as the criterion by which the validity of all domestic action in the fields of currency and trade is to be measured. Even though adherence to a clearly defined gold standard appears desirable, since it facilitates the attainment of international equilibrium, Dr. Heilperin emphasizes the point that it is the method by which equilibrium is maintained, rather than the legal structure of the monetary system in each country, which is the significant factor.

In defense of that major thesis, the author gaily tilts at many of his contemporaries. Professor Rist is inaccurate in his explanations of price-level movements; Mr. Keynes erects his plea for fluctuating exchanges upon unsound assumptions; and Professor Cassel has no justification either for the theory of purchasing power parity or for his famous contention that there was a close relationship between gold supply and price level during the nineteenth century! Victory in these jousts does not always rest with the present author, but there is a refreshing quality about the whole discussion that encourages careful thought regarding many of the contentions that have characterized monetary controversy during the past decade.

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Specifically, Dr. Heilperin suggests that the restoration of an international monetary system should proceed cautiously along the lines of negotiations among the Exchange Stabilization Funds comparable to the Tripartite Agreement of 1937. No attempt should be made to fix precise parities until the various nations have taken steps to restore such freedom of economic relations among themselves as will permit the maintenance of equilibrium in international payments. Moreover he calls attention to two factors that have been in large measure responsible for international monetary disorganization; viz., the fact that business epochs do not run synchronously in all countries and the divergence of theories among governments (and economists) as to the nature of the monetary policies that should be adopted to meet cyclical fluctuations in business. Both of these, he suggests, reinforce the contention that an international monetary system is not likely to operate smoothly unless there is conscious agreement regarding policies and procedures among the nations that adhere to it.

F. CYRIL JAMES

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The International Distribution of Raw Materials. By HERMAN KRANOLD. London, George Routledge & Sons, Ltd., 1938; New York, Harper & Brothers, 1939.—xxiv, 269 pp. $3.50.

As is the case with any study written in contemplation of war, the event itself produces contingencies unforeseen by the author. Dr. Herman Kranold's book entitled *International Distribution of Raw Materials* serves, none the less, as a valuable introduction to the raw material problem faced by both belligerents and neutrals in the present conflicts raging in Europe and the Far East. More than that, it raises a number of important questions related to the peace settlements which must inevitably follow.

In the presentation of his subject the author commences with a lengthy chapter entitled "Internationally Interesting Raw Materials", which contains concise thumb-nail sketches of all the principal metals, fibers, fuels and foodstuffs, with statistics on production and consumption, together with relevant details as to use. One of the original contributions made by Dr. Kranold is the use of index figures "weighted" according to his own defined method, as a means of drawing a comparison in the per capita raw material wealth of the fifteen most important nations. In his consideration of the

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British Empire the author has wisely excluded the Dominions and India from his calculations of Great Britain and her Colonies.

The per capita raw material wealth of the fifteen most important nations, according to Dr. Kranold's analysis, range from the highest to lowest as follows: Canada, Australia, Union of South Africa, United States, Russia, Great Britain, Germany, Italy, Brazil, Holland, Japan, France, Poland, India and China. While obviously the per capita method of calculation is very unsatisfactory in comparing the total wealth of the nations concerned, it still has a certain validity. For although the United States, Russia and Great Britain naturally remain the most powerful of the nations, Canada, Australia and the Union of South Africa rank higher on the per capita basis because of exceptionally small populations.

While the author is careful to state that such a method "does not abolish the assertion that some nations are much better off than others in respect to those attributes which interest us here", he none the less draws the conclusion that "the composition of the unfavoured group turns out to be quite different from what we hear so often stated, namely, that Germany, Italy and Japan are those unhappy nations which need a redistribution of raw materials in their favour."

The closing chapters of Dr. Kranold's study include a plea for the rationalization in the distribution of raw materials as well as a recognition of the political, financial and psychological hazards which stand in the way of a fair adjustment. With regard to the factors determining the quantity of raw materials a nation can buy, the following important considerations are listed: (a) the extent of purchasing power, (b) the price at which the material can be bought, (c) the competition of wants for a limited amount of purchasing power at the disposal of any nation.

It is obvious that in the past the problem of acquiring needed raw materials on the part of many states has been complicated not only by trade restrictions and price control, but particularly through the collapse of a normal system of international exchange. To those nations belonging to the Great Power group, moreover, the hazards of geographical position, especially in the case of Germany and Italy, become almost insurmountable in time of war. Any real solution of the raw material problem, therefore, must take into account the necessity of making more easily available natural resources, which the artificiality of political boundaries and nationalist economic systems restrict.

BROOKS EMENY

FOREIGN AFFAIRS COUNCIL
CLEVELAND, OHIO

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Gli aggruppamenti di imprese nell'economia corporativa: Mercato imperfetto ed economia corporativa. By FRANCESCO VITO. Extract from Volume XX of the publications of the Università Cattolica del Sacro Cuore. Milan, Società Editrice "Vita e Pensiero", 1939.—100 pp.

Francesco Vito, professor of Corporative Political Economy at the Catholic University in Milan, has brought out in a separate volume three of his articles which originally appeared in a larger work on trusts published by the Catholic University. Because of the intensely theoretical and pedantic nature of Vito's writing, the reprint of his own ideas on monopoly problems loses the rounded quality of the larger volume. In the latter Feroldi and Torini gave us some first-hand information about actual monopoly conditions in Italy and Germany, respectively, that was extremely valuable.

Dr. Vito divides his comments on combinations into three sections. The first, "Imperfect Competition, Collective Monopoly and Corporate Economy", traces the course of the theory of monopoly through traditional channels down to the present work on imperfect competition by Chamberlin and Robinson. Vito says: "From the economic point of view, corporatism can be described as that system that actuates totalitarian discipline, which organizes and unifies production for the attainment of social justice. Therefore it denies that competition can be the only directive principle of economic life" (p. 37). The principal organ of this is the corporation. Again, individualistic economy aims at defending individual interests—"the corporate system aims at the discipline of economic life in the interests of collective well-being" (p. 39).

Corporate control (according to Vito) allows Italy to conciliate the interests of producers with high fixed costs, the interests of consumers who may be harmed by monopoly prices, and the general interests of production which may be harmed by the inefficiency of marginal and sub-marginal producers who may seek shelter behind monopoly protection. This is a big order.

"The Current Theory of Monopolies in Italy", Vito's second article, claims that labor will benefit from the stabilizing influence of trusts, if there is state control. In addition, to serve best the interests of the social economy, it will be well to have all companies unite in obligatory trusts under direct control of the state. This latest type of trust, so popular in Germany, even before Hitler, has grown tremendously in Italy in the last few years, as witness the

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Finside trust in iron and steel and the *Finmare* for shipping which are semi-public trusts; i.e., the state owns half the investment, the public the other half.

Marx claimed that the trust would be a bridge to socialism, but Vito argues that this will not follow. Rather, the more desirable goal will be reached—that of the auto-discipline of fascism which "increases the efficiency of production and disciplines markets with the higher vision of the interests of the entire social economy, placing them all on a higher plane" (p. 71). The law of June 16, 1932, which was strengthened by successive laws of February 5, 1934 and April 16, 1936, gave the corporations direct control over all trusts.

The last contribution, called "Industrial Organization and Corporative Economy", includes an odd mixture of critical theory and comment on the modern corporate industrial organization. Vito comments on the theories of Barone, Marshall, Liefmann and Masci about industrial trusts, and credits Masci with the correct fascist theory on trusts.

"How fruitful these studies are for the elaboration of corporate economy!" (p. 99), Professor Vito remarks. Of course, the establishment of trusts, and especially of obligatory trusts, as in rice, marble, steel and shipping, is essential to the fascist economy, since the direction of state policy toward autarchy and armaments calls for control over key industries. However, the reader will be disappointed in his attempt to find any contribution to economic theory, or even to so-called corporate economic theory beyond some generalizations about control to further the general social welfare of the people.

The author's heavy pedantic style and his insistence on tracing an idea back to its remotest origins interferes with the clarity of his contribution. He throws little light on the obscurities of fascist economic theory.

HENRY S. MILLER

QUEENS COLLEGE

English Political Thought, 1603-1660. Vol. I: *1603-1644.* By J. W. ALLEN. London, Methuen & Co., 1938.—535 pp. 21s.

Professor Allen's book, in which he does for seventeenth-century English political thought even more elaborately what he earlier did for that of the sixteenth in Europe, is a veritable *monumentum anglicanum.* Here the political writers of these decades from Laud

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Prynne, the scholarly Hales and the group around Falkland at Great Tew, are reviewed—and reviewed with a detachment that is as a cool breeze in the overheated atmosphere of these present times. Those days, however, themselves were not cool but very like our own—days of preparation and waging of civil war when there was, as Locke later complained (for once, at one with Hobbes), "a liberty for ambitious men to pull down well-framed constitutions, that out of the ruins they may build themselves fortunes." This similarity gives to Professor Allen's book its peculiar fascination.

Professor Allen is the objective historian; but it is clear enough that he does not like the Puritans. He repeatedly reverts to a praiseworthy attempt to define them and, in effect, find the core of the matter not only in their belief—medieval enough—in hell-fire but especially in their belief in utter human depravity. In Baxter's phrase, the world came to seem "as a carcase that had neither life nor loveliness." The striving, by faith and hope of election, not by works, to reach the City of Refuge: that was the core of it. That discipline, apart from the profane mob but against those of power "in the world", made them revolutionary aristocrats. As Professor Allen insists, Puritanism was, like modern Communism, in essence not democratic but ideocratic. It believed in the rule of the chosen saints. As such it was called upon in duty to challenge all government inconsistent with its ideal. It was not popular or plebiscitary, as Baxter showed. It admitted no right of rebellion against Parliament; but it claimed right of rebellion by will of the formal majority in Parliament. That is patently not a conclusion that Professor Allen likes. It is yet worth note that it has been the route taken by revolutionaries in all the great revolutions of modern history. The "revolutionary vanguard" has scarcely ever even pretended to be numerically popular. It has, however, claimed to know the people's "sacred will".

The Royalist philosophy was, in the average, damaged by confusion and compromise. It sought to establish a government cheap, efficient and modern in the sense that Louis XIV or Mussolini have been modern. It was pro-State and, in general, Erastian. But, while affirming the right of the king as an indestructible element in legitimate sovereign power, even such men as Laud were quite unwilling to admit any absolute or arbitrary right of the king. "I was never such a fool", said Laud, "as to embrace arbitrary government." The whole ecclesiastical tradition, the just medieval belief in natural law, constituted a bar to the acceptance of Hobbes's

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logic, and a prejudice in favor of some national constitutional limits —even if not "constitutional" in Coke's narrow sense—to legitimate royal authority. Professor Allen suggests that the trouble with the Royalists was that they were unable to arrive at any clear concept of the sovereignty of King-in-Parliament, but talked of some sovereignty (although limited) of the king alone. Against that sovereignty the Houses of Parliament were in rebellion. This is a doctrine of mixed constitution with a vengeance.

I submit that the issue goes deeper. In our own decade we have seen in Britain the final repudiation of the doctrine that the king is an essential part of the sovereign, checking by appeal to the electorate or plebiscite, the will of the inner cabinet or party caucus. The basic issue was and is between natural law as reason (reason of God) interpreted by priest or king and natural law as will of God (Puritans) or of people (Jacobin) interpreted by those conscious of the feeling of leadership, God's self-known Saints or "class-conscious vanguard". The misfortune of the first alternative is that it is generally used in defense of established class interests. Whether the Stuarts so used it is the query that Professor Allen puts to us.

GEORGE CATLIN

LONDON, ENGLAND

Mr. Justice Miller and the Supreme Court, 1862-1890. By CHARLES FAIRMAN. Cambridge, Harvard University Press, 1939. —xii, 456 pp. $4.50.

Samuel Freeman Miller, whose judicial career is presented at length for the first time in Dr. Fairman's study, was a member of the Supreme Court of the United States from 1862 to 1890. During the decades of the 'seventies and 'eighties he gave color and vigor to the work of the Court. He was a native of Kentucky, where he prepared originally for a career in medicine. He shifted to the more congenial field of law, however, and moved to Iowa where his abolitionist sentiments were better received. When in the midst of the Civil War the federal judicial districts were reconstructed to take into account both the defection of the South and the expansion of the settled area in the West, Miller's friends in Congress succeeded in getting an alignment such that an appointment of a Supreme Court judge from Iowa could logically be made. The appointment of Miller, who was not widely known, was then urged on President Lincoln, and was made by him.

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Miller was in full sympathy with the drastic measures deemed necessary for winning the war, and, says Dr. Fairman, of all the justices he "was least out of sympathy with the course of Congressional reconstruction" (p. 124). He deemed the leaders of the rebellion to be guilty of treason, and he favored the death penalty for half a dozen of the most prominent and most "wicked" of them. Under no circumstances, he believed, could resort to arms be justified in defense of alleged rights. "The Supreme Court is and has always been regarded as the final and just arbiter of these differences" (p. 125).

In the bitter controversy over the constitutionality of the legal tender acts Miller supported the legislation. He wrote the opinion of the Court in the famous Slaughterhouse Cases, which, in Dr. Fairman's words, "raised for the first time that passionate issue, whether the Reconstruction Amendments had worked such an alteration in the federal system as to vest in the Supreme Court the power and duty to strike down state action which seemed unreasonable to a majority of the justices" (p. 179). He wrote many important opinions in other fields. He regarded himself as the leader of the Court, and was disappointed that the position of Chief Justice was not awarded to him. He was sublimely confident in the rightness of his own ideas and in the clarity of his own thinking. He was unsparingly critical of the peculiarities of his brethren, and of the failure of some of them to resign when senility was upon them.

Dr. Fairman's study is enriched—indeed its principal content as far as Miller's life is concerned is given—through the presentation of a large number of letters written by Miller, the best of them hitherto unpublished except for selected items previously published by Dr. Fairman himself. The letters reveal Miller as he could not otherwise have been revealed, throw much light on the personnel of the Supreme Court, and illumine generally the history of the post-Civil War period. The author presents his subject with meticulous accuracy. If other than through the Miller letters he fails to achieve the final stage of art necessary to make his subject live, he nevertheless sets an example to justify the understated scorn with which he views the imaginative creation of facts to make a smooth flowing story pleasing to trusting readers. (See note, p. 38.) The book is eminently sound, and will have permanent value for students of the Supreme Court and of the constitutional history of the period.

CARL BRENT SWISHER

THE JOHNS HOPKINS UNIVERSITY

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Mr. Justice Holmes and the Supreme Court. By FELIX FRANKFURTER. Cambridge, Harvard University Press, 1938.—139 pp. $1.50.

This little book comprises three public lectures evaluating the contributions, in the field of constitutional law, of Mr. Justice Holmes, who was a member of the Supreme Court of the United States for more than a fifth of its active history and was a participant in more than a third of its adjudications. Under the headings, "Property and Society", "Civil Liberties and the Individual" and "The Federal System", the author, in summary fashion, develops the basic theme that to Mr. Justice Holmes "the Constitution was not primarily a text for dialectic but a means of ordering the life of a progressive people." The story is retold of the fundamental traits of Holmes's juristic technique that have assured him a high place among the judges of all time: his rôle as a philosopher of the law rather than a crusader, his broad historical perspective, his general awareness of the subtle danger of identifying personal views and prejudices with constitutional sanctions and his literary artistry evidenced by gems of vivid and incisive style.

Although Holmes, more than most judges, "serenely dwelt above the sound of passing shibboleths . . . and refused to hearken to the din of the moment" (p. 93), it is our opinion that a more complete and a more human picture would have been painted if the author had pointed out the occasional lapses in the decisions of the great jurist when he came down from his pedestal and played a rôle other than that of "the impersonal voice of the Constitution" (p. 45). It is passing strange that in the chapter entitled "Civil Liberties and the Individual" there is no critique of the Holmes decision in *Debs v. United States.*

The high-water mark of liberalism in freedom of speech cases was reached in *Schenck v. United States,* when Mr. Justice Holmes, speaking for a unanimous court, formulated the "clear and present danger" test as a canon of interpretation of the First Amendment. The test as formulated by the Court was as follows: "The question in every case is whether the words used are used in such circumstances and are of such a nature as to create a clear and present danger that they will bring about the substantive evils that Congress has a right to prevent."

In order to appreciate the significance of the Debs decision, it should be noted (a) that the Debs case was decided just one week

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after the Schenck case; (b) that Mr. Justice Holmes again spoke for a unanimous court, and (c) that the Court, in the Debs case, abandoned the liberal "clear and present danger" test in order to "get its man". In the later case of *Abrams v. United States* wherein Mr. Justice Holmes, by way of dissent, tried to show his consistency in freedom of speech cases, he referred to the defendants in the Abrams case as "poor and puny anonymities". Eugene Debs was not of that stripe. But even as leader of the Socialist Party it is submitted that if the Schenck test had been used the Supreme Court would not have been able "to squeeze enough" from his speech "to turn the color of legal litmus paper." In the still later case of *Gitlow v. State of New York,* another freedom of speech case, Mr. Justice Holmes again dissented and attempted to show his consistency by reaffirming the clear and present danger test. He said, "It is true that in my opinion this criterion was departed from in *Abrams v. United States,* but the convictions that I expressed in that case [in the dissent] are too deep for it to be possible for me as yet to believe that it and *Schaefer v. United States* have settled the law." But the venerable Justice says never a word about his own departure from his own test in the Debs case, nor does he justify the utilization of a repudiated test of guilt, one week after the Schenck case, to snare the perennial presidential candidate of the Socialist Party.

FORREST REVERE BLACK

WASHINGTON, D. C.

Propaganda for War: The Campaign against American Neutrality, 1914-1917. By H. C. PETERSON. Norman, University of Oklahoma Press, 1939.—viii, 357 pp. $3.00.

Of books on propaganda during the first World War there seems to be no end. Yet among the mass of materials on the subject none is more timely or more significant than this story of the British attack upon American neutrality from 1914-1917. Mr. Peterson points out the advantages England had over other countries. Most Americans had a feeling of respect for their British "cousins" because of a common culture and a common language. Furthermore, the newspapers were friendly to England. For years the American press had received its European news through British channels, and this gave a British perspective to all such news. The cutting of the cables between the United States and Germany on August 4, 1914 was the first act of British propaganda for from that date on

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only such news as the British Press Bureau — the War Office — allowed to come through was printed in the United States.

To Sir Gilbert Parker of Wellington House was assigned the task of winning over American sentiment and American help. He was as successful in this as Lord Northcliffe of Crewe House later on was in his attacks upon the morale of the Germans. Sir Gilbert found an intellectual aristocracy in America that was pro-British from the start. He found a banking aristocracy that regarded London as the banking center of the world. These bankers wanted the Allies to win the war from the outset. The bankers and moneyed interests poured money into the Allied countries from the early period of the war until the time came when America had to fight to save the loans. Not only did the Americans refuse to lend money to the Central Powers, but American trade with these powers was practically cut off. This destruction of economic connections between the United States and the Central Powers served to eliminate any possibility of sympathy arising out of mutuality of interests.

After the British and French governments had appointed the Morgan firm as their purchasing agents the purchases of the Allies in the United States grew to startling proportions. Business boomed in America. Thus, from 1915 on, the victory of the Allies became essential to the United States. "As far as economic warfare was concerned, the American declaration of war took place in 1915" (p. 108).

American political leaders during those critical years accepted the British propaganda unquestioningly. Wilson and his advisers were pro-British from start to finish. As one writer stated, "the conduct of the American government during that period was a negation of nearly all the requirements of neutrality both in thought and in action" (p. 207).

It is useless to criticize England for her economic pressure upon, and her dissemination of false information in, America during the so-called neutrality period. We can only criticize our governmental leaders for accepting the propaganda at face value. We can only hope that in the present war our leaders will not again subordinate the American people's desire for peace to their own desire for an Anglo-French victory. The lesson of 1914-1917 will be lost if we let emotion run away with reason. For, as Mr. Peterson proves—and this is the theme of the book—the history of the "neutrality" period demonstrates that "it is impossible to be unneutral and keep out of war" (p. 330).

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The book is scholarly, yet understandable to the layman. It is equipped with a critically selected bibliography, valuable appendices and a good index. It belongs on the "must read" list of any person interested in international relations.

GEORGE G. BRUNTZ

LOS GATOS, CALIFORNIA

Canada Today. By F. R. SCOTT. 2d ed. rev. London, Toronto, New York, Oxford University Press, 1939.—xii, 184 pp. $1.50.

Until September 1, 1939 Professor Scott's book was undoubtedly the outstanding analysis of Canada today. The unfortunate events of that black day in human history have made it a penetrating treatise on Canada yesterday and an indispensable guide to understanding why the Dominion has once again taken her place among the defenders of the British Commonwealth. Originally prepared as a brief summary of Canadian problems for the British Commonwealth Relations Conference held at Sydney, Australia, in September 1938, the book is none the less scholarly, accurate and endowed with the lucidity of exposition which is the particular gift of the author. In addition to the text its very complete bibliography should be of great value to students of the Canadian problem.

Professor Scott begins by explaining clearly the geographical and historical factors conditioning Canadian life and the peculiar problems presented by a population divided into two groups, one English, the other French-speaking, which are often mutually antagonistic. There is an excellent chapter on the nature of the Canadian economy with special emphasis on the growth of monopoly. The concentration of economic power in a few corporations in the Eastern provinces, and the subsequent resentment in the West and in French Quebec at the supposed subservience of the Dominion government to the "interests", are very ably discussed. This supplies a very well-documented study of Canada's greatest internal conflict, the struggle between greater centralization and Dominion dominance on the one hand, or greater federalization with the dominance of provincial rights on the other.

Professor Scott, who is perhaps the most sympathetic and fair-minded advocate of the French-Canadian point of view among his compatriots, deals competently with the strong nationalist movement in Quebec. He thoroughly understands the French-Canadian's de-

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sire for the preservation of his own form of culture and life and his growing reluctance to accept any longer the obligation of membership in the British Commonwealth, if it should continually involve participation in overseas wars. The French-Canadian's hesitancy to embrace any concept of Canadian patriotism which would include every race, religion and language in the Dominion is clearly pointed out as constituting as great a dividing force in Canadian life as is the English-speaking Canadian's emotional tie-up with Britain.

The chapter on Canada's external relations is a lucid analysis of the advantages and disadvantages of Canadian membership in the Commonwealth. Professor Scott is inclined to agree with the majority of his fellow Canadians that the British connection has on the whole been a benefit to the Dominion. But he also saw very clearly in 1938 that Canada must choose whether she should remain an integral part of the European political system, or whether she should withdraw from it into a policy of coöperation with other American nations. Canada's active participation in the present war shows which course her government and Parliament have chosen. The "call of the blood" is still very strong in the hearts of the English-speaking majority of Canadians.

Professor Scott has long been the foremost and brilliant advocate of a policy by which Canada should have the right to declare her neutrality in case of an imperial war, lest a sudden crisis sweep her into the European maelstrom. He was perhaps ahead of his time in believing that such a policy was possible for the senior British Dominion, but his fear that unless positive steps were taken to protect her position Canada would inevitably become involved has been amply justified. Professor Scott pointed out clearly that the tide of "imperialist" sentiment was still running strong in spite of the growing North Americanization of Canada and derived especial power not only by the appeal to old loyalties but also from the key positions held by "imperialists" in the government, industry and finance, as well as in the army and the church. Events have proved Professor Scott right in his belief that Prime Minister Mackenzie King's seemingly hesitant policy of letting Parliament "decide" Canadian policy, if war should arise, was merely a means of preserving national unity by balancing "imperialists" against "isolationists". The very indefiniteness of this policy Professor Scott asserted would inevitably bring Parliament face to face with the *fait accompli* of active war participation. It is true that Canada has declared war in her own name for the first time in history but, as

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Professor Scott foresaw, she was too closely tied to Britain by sentiment and economic interests to take any other course.

It is a rare thing to find so much clear thinking, such lack of propaganda and such genuine unemotional patriotism in a man's estimate of his own country. For that reason alone Professor Scott's book deserves to be read by all who wish to understand the underlying causes of Canada's position today.

ELIZABETH H. ARMSTRONG

NEW YORK CITY

Five Cities: The Story of Their Youth and Old Age. By GEORGE R. LEIGHTON. New York and London, Harper and Brothers, 1939.—x, 370 pp. $3.50.

This is a new kind of history of our own times. It is grounded upon the fact—though the author neglects to emphasize it—that society, after all, consists of people and is itself only an abstraction. The history of a nation can be no more than a series of generalizations upon the experiences of human entities, persons. What gives to history its unity, so far as it possesses unity, is some similarity of experiences among persons of like status, aptitude and environment. When for any great human group there can be shown to exist a dependable likeness in pattern of experience, the history runs smoothly. Where the likeness is lacking, and in its place are numerous minority patterns, revealing variant essential interests on top of that determination to survive which may be assumed, the threads of history refuse to be blended into a smooth and simple surface. But after all, pattern or no pattern, what has happened is all the history there is.

Mr. Leighton has chosen to relate the experiences through a half-century or so of five somewhat comparable cities in the United States. Each is a type. Shenandoah, Pennsylvania, means anthracite. Louisville stands for culture of the blue grass, confused by the intrusion of industry. Birmingham is iron; and synthetic at that. Omaha bred railroads to agriculture, producing populism. Seattle is lumber. In each of the cities there were brought to a focus the dominant interests of what was an American region, because it had dominant interests. In each, in the beginnings, were hopes and expectations as though a golden age were to last forever. In each, today, there are doubts and debt. As he traces the ups and down of each, it has been possible for the author to tell

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much of the economic and social story of the United States through the period since agriculture ceased to rule the nation.

The method is commendable, but in the execution there appear to be flaws. Mr. Leighton has chosen to select his five cities for case study because of their resemblance to a pre-selected pattern. He disapproves of the present trend of things. His chapters bolster his disapproval more completely than could have been the case if he had drawn the five out of a hat, or had selected to a different specification. Even in his chosen five he has not found the material to show the honesty and directness which may be discovered in even the worst of our communities; his eye has been most sensitive to fraud, recklessness, graft, class selfishness, and the relentless silent influence of absentee wealth. His history slants, so that instead of displaying a pattern based on fair generalization it becomes a brief against the present and the past.

It is not a bad brief, considered as a brief. There has been hard digging behind each chapter, showing itself through the text to anyone who knows the sources, and described in bibliographical entries from which another historian, briefing the other side, might perhaps make out a case.

It is novelized, also. The serious narration is brightened with description of imaginary days, and decorative characters carry on conversation in direct discourse. It is difficult for the reader to determine when what appears to be historical fiction—some of it good historical fiction—stops, and reality begins. And this does damage to the historical dependability of the book.

But, argumentative as it is, *Five Cities* is provocative of thought and presents a challenge for cross-examination and rebuttal. It suggests a method which less earnest advocates might well use as a means of getting nearer to the truth.

FREDERIC L. PAXSON

UNIVERSITY OF CALIFORNIA

Italy and the Vatican at War: A Study of Their Relations from the Outbreak of the Franco-Prussian War to the Death of Pius IX. By S. WILLIAM HALPERIN. Chicago, The University of Chicago Press, 1939.—xvii, 483 pp. $3.00.

The reviewer, a historian, has read this substantial volume on the alert for findings which would have a direct interest for his colleagues in political science. It is necessary to report that such

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findings are not within the scope of Dr. Halperin's present enterprise. The Italian government devised for the pope a "territoryless" sovereignty, a kingdom not of this world. The papacy never ceased to exorcise such an institution as an impossible monster and in 1929 it disappeared, but the attempt to found it produced a theoretical discussion which Dr. Halperin has summarized (pp. 132-135), with citations of the literature. The Law of Guarantees simply produced an important political struggle, which Dr. Halperin records in its initial phase.

Dr. Halperin has set himself the task of particularizing the record of this struggle. Presenting its incidents in chronological order, he carefully reports the reaction to each incident of French and Italian opinion, Left, moderate and clerical, and of the governments of Italy, France, Austria-Hungary and Germany. The method has one capital defect. Two great parties were concerned in the struggle: not only the papacy and the government of Italy, face to face in Eternal Rome, but the party representing those in Western society who still put religion above state and nation, and that composed of those who ardently believed that through science and secular culture lay the highroad of progress. In such a narrative as the present the relations between the political representatives of this issue are fully described, but the entities behind them do not come to life. Was the Italy that occupied Rome simply a government making what shift it could to navigate in troubled waters? Was the pope simply a tired, outraged, kindly and befuddled old man, whose diplomacy was conducted by a wily cardinal? In this light such a narrative presents them, and the drama which the author predicts in his "Introduction" becomes an unedifying farce, exploited by the foreign offices of Europe to advance their designs on each other.

But a reviewer has no right to demand of an author the performance of a task which he was perhaps too modest to undertake. Dr. Halperin has done well what he set out to do. He has apparently left no stone unturned in exploiting the formidable literature of his subject, he reports the press, and he has dug into the archives at Vienna and Paris. His clear and fluent style keeps a mass of detail in slow but continuous motion. It is interesting to see how Italian opinion was being molded into an alliance with Germany and Austria-Hungary by the hysterical behavior of the clerical party in France during this period. The reader gets an impression of governments pursuing a sensible and moderate course as best they could amid a clamor of impossible claims and sensational rumors

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as dizzying as that which afflicts us now. It becomes clear that amid all the hubbub the pope himself quickly settled down, sizing up the advantages that could be gleaned from posing as a prisoner. "I am not moving," said Pius IX, "and I shall not move. I am too old to imitate Pius VII, and Victor Emanuel is not Napoleon."

KENT ROBERTS GREENFIELD

THE JOHNS HOPKINS UNIVERSITY

Mussolini in the Making. By GAUDENS MEGARO. Boston and New York, Houghton Mifflin Company, 1938.—347 pp. $3.50.

There is perennial interest in the process by which a statesman is produced. He may in the end turn out to be a leader, or a tyrant. The leader, mastered by an idea, wins loyal followers; the other exploits a bewildering variety of ideas in series, as he learns the art of conquering power. As regards Mussolini, there have been plenty of legends and panegyric biographies. At last we have a conscientious study, competent and satisfying, pursued to success in spite of all the obstacles that could be devised by a powerful government intent on maintaining the monopoly of its own chosen sanctifying myth. It is high time that the world should have a real exploring and revealing of the essential truth regarding the formative stages of this extraordinary career.

The Mussolini that now emerges is more intelligent, less tinsel and stage property than some had supposed, more than the mere gangster and bluffer that others have seen, on the whole a more sinister phenomenon for the student's science of politics. Here is a real intellectual who has run the gamut of radical revolutionary ideas—anti-patriotism, anti-religion (not merely anti-clericalism), anarchism, bolshevistic communism in the Leninist sense, all genuinely and vehemently advocated—and has come out the simon-pure imperialistic despot, who uses throne and altar, brutal violence and fraud, to buttress his autocratic régime. The special interest of this reviewer has been caught by the consistency with which character was developed around one factor, the rebel's pursuit of personal power. Ideals were clearly apprehended, but they were used, not served. Mankind was a mass of material to be manipulated; men and groups were cynically despised. Agitator colleagues, newspaper constituencies, regional loyalties, parliamentary parties, even the Italian nation—all these have been raw stuff for cramming the maw of an insatiable Ego.

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True to his title, the author leaves to others the more familiar story of the latter or fascist half of Mussolini's life, and devotes practically all his space to the origins and development of the Ambitious Agitator. The youth is intimately, vividly sketched, as he experiences dire poverty, self-education, voluntary exile, prison. The various editorial experiences are studied in detail, especially in the case of his *Lotta di Classe* (Class Warfare). As the story progresses later history is drawn upon for acute comment, especially regarding betrayals, and the incredible shifts and contrasts in attitude; but the theme of this book is the growth of Mussolini, the period before he was thirty years old. The conclusion is reached in December 1912, when his figure assumes conspicuous proportions, as editor of the nationally recognized Socialist organ, the *Avanti.*

Here are minute, accurate studies of the reactions of Mussolini's fertile and agile mind to the infinitely diverse ideas of Nietzsche, Sorel, Blanqui, Hervé, Pareto, and of his dealings, now coöperative, now treacherous, with such important Italian figures as Battisti, Cicotti, Serrati, Lazzari, Nenni and Turati.

Angelica Balabanoff's revelations have made one dubious as to what is here called Mussolini's "brilliant" editorship of the *Avanti* (1912-1914), but that after all is outside the purview of this book. As regards the chosen period, that of mental formation, previous biographers, such as Beltramelli, Sarfatti, and Richard W. Child, author of the so-called autobiography of Mussolini, are ruthlessly exposed. The reader gradually comes to feel that he now has the definitive story of the "making" of this *Duce* (who for this book is not yet Fascist), more and more consciously the "superman beyond good and evil", who at the age of twenty-seven, at the end of a decade of intellectual conflict, says, "I recognize no one superior to myself."

HENRY R. SPENCER

THE OHIO STATE UNIVERSITY

Carter Glass: A Biography. By RIXEY SMITH and NORMAN BEASLEY. New York and Toronto, Longmans, Green and Co., 1939.—xii, 519 pp. $3.00.

This book is a tribute to the character and honor of a man who deserves to be called "great". For nearly forty years few issues in American history have not been influenced, and some have been determined, by Carter Glass. As editor, state senator, congress-

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man, secretary of the treasury and senator he has built up a reputation for integrity, pungency, independence and courage which will ever be considered the chief qualities of his public career. He has truckled to no man against his conscience and has never been the leader or the tool of a political machine. But the reader would have a higher and more convincing impression of his stature if the present biography were less partial.

The authors have certainly produced a book that maintains interest and that deserves to be read widely. It is distinctly a popular biography with no footnotes and no bibliography. Obviously, the chief sources used are Glass's speeches and files, both of which are extensively quoted but not cited. Apparently the authors intended to reveal Glass's point of view on the various public issues of his life, for they have definitely succeeded in writing "The Life of Carter Glass according to Carter Glass". There are arguments in favor of such a book, but one regrets that men who write so well should not have considered something of the side contrary to the view held by the Senator.

The early part of the book must have been written from conversation based on memory, for both factual errors and important omissions are obvious. The account of the issues leading to the battle against Mahoneism in Virginia is misleading. The impression is given that Glass inspired the beginning of this fight which had been going on very vigorously for several years before Glass assumed the position of editor. Although authentic records show that Glass argued for free silver and caustically criticized Cleveland for nearly a decade before 1896, and that as a member of the resolutions committee at the Chicago convention he fought vigorously for a definite silver pledge, the impression is given that the young editor was swept off his feet by the enthusiasm incident to the "Cross of Gold" speech delivered by Bryan. The most unreal and astonishing statement in the book is that since Glass fought the Martin machine in 1911 there has been no effective political machine in Virginia. In that brave fight Glass made some telling thrusts, but he was defeated two to one. Indeed, so effective has the machine been since that time that only in the most unusual circumstances has it been defeated.

Some of the most impressive and convincing parts of the biography have to do with Glass's relationship to the Federal Reserve System, with Woodrow Wilson, and with his persistent and numerous warn-

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ings concerning the inevitable outcome of the "spurious, speculative paper prosperity" of the 'twenties. The latter story reveals a loyal Wilson man warning against excessive speculation, against groups who wished aid from the federal government—tariff protectionists and farmers—a man trying desperately to make the banking system, of which he was the father, serve the interests of commerce and industry rather than of stock gamblers, pointing out the certainty of a final reckoning, and insisting on keeping to the fundamental principles of the relationship of the government to its citizens. Then came the collapse, and the turning of all groups to the government for aid and the departure from what he considered traditional and indispensable principles to meet the new situation. Glass regretted and opposed most of the departure, and in so doing his realism might be challenged, but one must remember that he is a product of the old line school of liberals as represented by the New York *World,* whose editorials were so frequently quoted in his own newspapers.

In presenting many of Glass's arguments against the New Deal the authors fail to be convincing. The possibility that other arguments beside the lack of gold might exist for departure from the gold standard is not even intimated by a single word or sentence. The authors' complete positiveness that Roosevelt has departed from Jeffersonian principles weakens the book, for certainly many thorough students of Jefferson feel that such an interpretation results from the confusion of Jefferson's principles with the means by which he would realize them. The scornful epithets, such as "embryonic Solons", "impatient academicians", and "supremely wise men", which Glass hurls at the New Deal professors are amusing, especially in view of the fact that it was a professor and not a banker nor a business man nor a lawyer whom Glass chose in 1912 as technical expert in the writing of the Federal Reserve Act. Then, too, Woodrow Wilson, whom he considers, and who probably was, the greatest man he has ever met, was primarily a professor who was denounced by his opponents as visionary and impractical. Probably it was Glass's point of view rather than the professors that inspired the epithets.

ALLEN W. MOGER

WASHINGTON AND LEE UNIVERSITY

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The Delegate from New York or *Proceedings of the Federal Convention of 1787* from the Notes of John Lansing, Jr. Edited by JOSEPH REESE STRAYER. Princeton, Princeton University Press; London, Oxford University Press, 1939.—viii, 125 pp. $2.00.

These Lansing notes were unknown to scholars till 1935 when found in the possession of two of his decendants. It is curious that though many of the fifty-five delegates to the Federal Convention kept notes, of only three—James Madison, Robert Yates and John Lansing—has anything like a complete record survived. The hitherto known body of this material we have had in the monumental set of Farrand's *Records,* and otherwise.

New York was represented at the Federal Convention by three men, Hamilton, Lansing and Yates, but only Hamilton signed the instrument, as the others had withdrawn a little more than a month after the convening of the convention in Philadelphia. The reason why John Lansing left and did not care to return is revealed in a letter (in the New York Public Library) from his brother Abraham G. Lansing to Abraham Yates, Jr., August 26, 1787, thus: "I find but Little Inclination in either of them [Yates and Lansing] to repair again to Philadelphia, and from their General Observations I believe they will not go—early in the Commencement of the Business at Philadelphia, my Brother informed me that he was in sentiment with a respectable *Minority* of that Body, but that they had no prospect of succeeding in the measures proposed and that he was at a stand whether it would not be proper for him to Leave them. This circumstance convinces me the more that they will not again attend—Mr Hamilton will consequently be disappointed and chagrined." Lansing sat in the convention only from June 2 till July 10. He left with Yates. These two were again together, in 1788, in opposition to ratification of the constitution at the Poughkeepsie State Convention.

Professor Strayer of Princeton University has edited the Lansing manuscripts and gives a description of them as well as a biographical account of Lansing. He says (p. 12) that "it is clear that Lansing wrote his record independently of Yates," except for a few days' absence, when he did resort to Yates's record; therefore Strayer adjudges Lansing "can be considered an original authority." His "Notes" afford an opportunity of checking the accuracy of Madison and Yates, and also are useful "in checking the accuracy of some of

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the many additions and corrections which Madison made to the *Debates* in the years after the Convention" (pp. 12, 16-17). The "Notes" are of course limited to the first period of debates, when the troublesome question of representation, involving domination, was uppermost in discussion; and Strayer says that Lansing's "Notes" shed new light on these points and the jealousies aroused, and "this is their chief value for the general historian." Strayer's documentation of Volume I is elucidated by 192 footnotes, and Volume II by 187 of them. The appendix to Volume I, "Report of the Committee of the Whole", and "The Virginia Plan, with Amendments made by the Committee of the Whole", and the appendix to Volume II on Gerry's "Report" and Hamilton's "System", have 58 footnotes. The editor's introduction and those hundreds of editorial elucidations greatly enhance this newly-found text.

VICTOR HUGO PALTSITS

NEW YORK CITY

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BOOK NOTES

The Case for Experience Rating in Unemployment Compensation and a Proposed Method, by Herman Feldman and Donald M. Smith, and *The Case against Experience Rating in Unemployment Compensation,* by Richard A. Lester and Charles V. Kidd (both published by Industrial Relations Counselors, Inc., New York, 1939; viii, 66 pp.; 60 pp. $1.00 each)—together these monographs cover quite satisfactorily the theory of experience rating in unemployment compensation. The writers, recognized authorities, seem to have approached the task of explaining each side of this controversial subject with independence of thought. That in itself is a worthwhile undertaking, for, as Feldman and Smith state (p. 10), "few people discuss it without evidences of preconceptions and prejudice." The articles are thorough in workmanship, the footnotes are helpful, and each is supplemented by a good list of references cited. A bibliography is of especial value because at present material in this field does not seem to be adequately assembled in most libraries. There are gathered together in each article for discussion most of the conceivable arguments on experience rating. For one undertaking a study of both articles it might have been more convenient if the arrangement in each had been uniform. However, a more formal approach might have hindered the ease and facility with which each article is developed. Experience rating in unemployment compensation is a comparatively new subject. It is a method of classifying employers based on statistics as to their past employment experience, in order that the employers may be segregated for the purpose of receiving a rate of unemployment insurance tax below or above the normal rate in most states of 2.7 per cent. It seems generally agreed that experience rating has two primary objectives, first the stabilization of employment and secondly the equitable distribution of the social costs of unemployment. As experience rating under the various state laws had been in full operation in only a few states at the time these articles were written, the arguments for and against are largely theoretical. Wisconsin permitted reduced contributions to employers in 1939, but most of the states will not reduce contributions until after 1940. While it is pointed out by Lester and Kidd that some of the systems used have not achieved their purpose, it is suggested by Feldman and Smith that "the real difficulty is essen-

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tially technical, and it is from this angle that experience rating should be considered and either applied or rejected" (p. 27). Each article contains suitable references to the history of this subject, with a brief analysis of the use of experience rating abroad. The subject of experience rating is being carefully examined by commissions and advisory councils in many states. In seeking to reach a conclusion both sound and practical the above articles will prove of real assistance.—MARTIN SAXE, New York City.

Friedrich Hertz is a German sociologist and historian who has made himself most objectionable to the National Socialists because of two lines of investigation which he has been pursuing for many years. His penetrating studies of nationalism led him to a thorough debunking of racial theories (see his *Race and Culture*); at the same time he is one of the few German scholars who believed in imperial Germany's responsibility for the outbreak of the World War. He now combines these two problems, nationalism and the origins of the war of 1914, in his latest work—*Nationalgeist und Politik: Beiträge zur Erforschung der tieferen Ursachen des Weltkrieges,* Band I: *Staatstradition und Nationalismus* (Zürich, Europa-Verlag, 1937; xv, 479 pp. 15 Swiss francs). The purpose of this volume is to "make a contribution to the understanding of those hidden forces known as 'public opinion' and 'national character'" (p. 7). It thus represents a criticism of those who explore the problem of war origins on the basis of official documents, in which the more fundamental aims are seldom revealed. The author takes up the origins and development of the state systems of England, France, Austria, Russia and Germany, and then proceeds to outline the development and character of the nationalism in each of these countries. The volume, while not novel or original in treatment, does bring together a wealth of scattered material and reveals a wide familiarity with the political ideas and cultural developments in the major European countries. The author's bias is definitely pro-British and hostile to imperial Germany. He combats the notion of "perfidious Albion", showing it to be the result largely of the works of German historians. British imperialism, he says, started with religious refugees, settlers, and private profit seekers, and not with a goal for state power. The German state system, on the other hand, bears the deep impress of the cult of Frederick the Great and of the Prussian military caste. Whereas English nationalism has emphasized peace, individualism and the empirical man, German nationalism has fallen victim of the "abstract idea". Professor Hertz often draws his contrasts too

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sharply and often indulges in overstatement. Thus, whereas he minimizes the importance of the *revanche* idea in France and the activity of Déroulède and his League of Patriots, he attaches far more importance than is usually given to the Pan-German league and its influence in bringing on the war. Despite this very obvious bias the work is an important addition to the literature of both nationalism and war guilt.—KOPPEL S. PINSON, Queens College.

Pierre Imbart de la Tour devoted his entire lifetime to the study of Calvin and the Calvinist movement. His large four-volume work, *Les origines de la reforme,* is not only one of the most authoritative studies on Calvinism but it is also one of the masterpieces of contemporary French historical scholarship. The last volume of this work (published in French in 1935), dealing with the personality of Calvin, the propagation of his doctrine, and the history of French Calvinism up to 1559, is made available in a German translation by Eugen Gottlob Winkler, *Calvin: Der Mensch—Die Kirche—Die Zeit* (Munich, Georg D. W. Callwey, 1936; 477 pp. RM 10). In a sense, this volume represents a distillation of the mature study and reflections of the author on the personality of Calvin. The publication of this volume in German translation is also an indication of the way in which non-Nazi intellectuals in Germany (before the war with France) satisfied their demand for sound historical works and at the same time maintained a safe distance from too dangerously political subjects.—KOPPEL S. PINSON, Queens College.

The amateur of historical whimsy might well find much beguilement in the startling modernity of Anglo-Russian diplomatic relations in the days of Peter the Great, the first Bolshevik, and of his disciple, Ostermann, turning, as they did, in large part on the Polish question. Not that Dr. Douglas K. Reading's handling of the negotiation of the commercial treaty of 1734, in *The Anglo-Russian Commercial Treaty of 1734* (New Haven, Yale University Press; London, Oxford University Press, 1938; xi, 337 pp. $3.00), gives other aid than sober presentation of the facts; the reader's own imagination must do the rest. The economic interests of the English are described, not without some acerbity, while Russian economics are only allusively developed. Similarly, the political background is treated in terms of English considerations, into which strands of Russian aspirations are occasionally woven. The articles of the treaty itself are carefully classified, and their genesis elaborately discussed, though one might wish that there were more meticulous correspondence between the English translations incorporated in these

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chapters and the French text printed in the appendix. The effect of the treaty on subsequent Anglo-Russian relations is not adumbrated, and only in the case of the trade with Persia are the long-range antecedents indicated; thus the Polish appeal to Elizabeth of England for a cessation of English trade relations with Moscow, on the ground that "Your Majesty knows not the strength of this enemy and the authority he enjoys over his subjects", does not color these pages. Supported by a volume of detail, the gist of the book is contained in a footnote on pages 39-40, in which the author sketches Pokrovskii's thesis of the struggle of western European commercial capital to dominate eighteenth-century Russia, a thesis which "oversimplifies", though "in the actual analysis of the Treaty of 1734 itself, one finds precious little more than the hard economic basis of mercantilist profit determining the English approach to the rising Slav power on the Baltic."—JESSE D. CLARKSON, Brooklyn College.

The declining rate of population increase in western European countries has become the object of much concern, for upon it hinges, it is believed, the future political and economic power of the nations in question. Especially has this been true of France, where the natural increase (excess of births over deaths) has since 1926 hovered around the zero point and since 1935 has been actually a negative quantity. In fact, if the present trends continue, France will have by 1960 6.5 per cent of the total European population as compared with 8.6 per cent in 1925. The threat of a declining western European population is so far-reaching in its consequences and the problem is so advanced in France, that the study *France Faces Depopulation* (Durham, Duke University Press, 1938; xi, 313 pp. $3.00) by Professor Joseph J. Spengler is extremely welcome. The book is a digest, admittedly without much original investigation, of the extensive literature on the French population question, and an evaluation of the various reasons advanced for the decline in natural increase and the measures taken to counteract it. The chief reasons for the decrease in the number of births over the number of deaths are held to be the desire for small families, late marriage, the practice of birth control, and the economic difficulty of supporting a large number of children. Each of these reasons Professor Spengler supports with abundant data that indicate, among other things, higher birth rates among religious groups who oppose birth control than among all Frenchmen and a greater decline in the number of children among poor families than among rich. The main offsets to these population depressants have been immigration (1,916,000 recorded

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immigrants and 440 to 660 thousand unrecorded immigrants are said to have come to France from 1920 to 1930), which has been curbed since the depression, propaganda by pro-populationist societies, and a satisfactory decrease in mortality rates. Furthermore, various prizes have been given for large families; and wage scales for heads of families have been augmented by "family allowances" in an effort to increase the earnings of the family man. But these monetary aids, Professor Spengler maintains, have had little effect on the birth rate because of their insufficiency. Short of a "chemical revolution" the population of France is almost certain to decline and because smaller populations improve the standard of living of the masses, the "struggle for population" will probably become integrated with the class struggle. These issues along with many others are discussed with authority, but in a style that only the scholar will have the patience to tolerate. An abundance of statistical detail clutters the text and would have been more easily grasped if it had been put in tables. The shortcomings of presentation are relieved by a systematic organization and concise summaries.—SHEPARD B. CLOUGH.

In his book, *The American Governor from Figurehead to Leader* (Chicago, University of Chicago Press, 1939; xxi, 282 pp. $2.50), Mr. Leslie Lipson of Victoria University College, Wellington, New Zealand, describes the recent concentration of executive and legislative power in the office of the governor. The bibliography of American state government is already replete with general treatises covering and re-covering old ground, while too few monographs are written singling out specialized phases such as this. By orienting his particular aspect into the whole sweep of governmental history, Mr. Lipson relates it at once to today's chief question: dictatorship or democracy? Results of the reorganization movements in the state governments of Illinois, Massachusetts, New York and Virginia are treated intensively, although the author also visited the states of California, Georgia, Kansas, Montana, Nebraska, New Mexico, Oregon and Washington for the purpose of interviewing officials. His experience on the ground enables Mr. Lipson to point up his more detailed studies of four states which have undertaken major reforms. In the first half of the monograph, familiar fields are reviewed, chiefly on the basis of written materials. After tracing the historical development of the powers of American governors, Mr. Lipson evaluates the position of the governor as a chief executive and as a chief legislator before reorganization. Weaknesses inherent in his position at that time are pointed out. Next ensues explanation

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of the conditions which prompted change, of the aims of the movement, and of the process by which it was realized, with particular emphasis upon the four representative states. Although succinctly treated, this material has already been so thoroughly combed that it is a question whether it merits almost one-half the author's attention. It is in his discussion of the governorship subsequent to reorganization that Mr. Lipson adds new light to his subject. Gubernatorial power over control agencies, staff agencies and operating agencies is analyzed with judicious use of documents and first-hand information. The author cuts to the core of such matters as the success or failure of governors' cabinets. Theories are tested by his field findings. As compared with the perspicacious section on administrative problems, the chapter on the governor as chief legislator after reorganization smells of the lamp. The final conclusions reached are an admirable exercise in the art of avoiding unsound generalizations. That power necessarily begets responsibility is an assumption to be challenged. That an executive system, integrated on paper, will automatically attract effective administrators is opened to question. As Mr. Lipson says, law can establish hierarchies and confer authority, but true leadership whether in legislation or in administration must be won afresh by each governor. So in the annals of New York State, Smith, Roosevelt and Lehman constitute a dynasty which not only met legislative success, but also enhanced the quality of administration. Thoughtfully introduced by Professor Marshall E. Dimock, the book contains a satisfactory bibliography and ends with an adequate index. Without passing judgment or indulging in prediction, Mr. Lipson by his objective method has made clear the ramifications of the position of the executive branch of American state government. — ARTHUR W. BROMAGE, University of Michigan.

That fatness ranks next to goodness as a criterion of judgment of tomes in the social sciences is a doctrine which, though implicit in many a work, the present reviewer utterly rejects. Nevertheless, he confesses himself initially appalled on sight of a work which goes to the other extreme, endeavoring in 114 pages of text to discuss the history of political ideas from the days before the Greeks down to the present. Nor does the introduction to the present work—*A Short History of Political Thinking,* by Paul W. Ward (Chapel Hill, The University of North Carolina Press, 1939; x, 127 pp. $1.50) —lessen his doubts, since the author, as a disciple of Dewey, insists that ideas are intelligible only in terms of their contemporary social

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contexts. Hence, Dr. Ward is under the necessity of endeavoring to combine an analysis of ideas with a history of major social trends throughout well over 2,000 years. He succeeds in this monumental and impossible task of compression as well as might be expected, and even better. But, granted that there is, as he suggests in a foreword, "a place for a small outline history of political thinking both to serve the interests of the general reader and to accompany lectures and assigned readings in original sources for beginning students," the consequence of his work when put in the hands of either will be, one fears, to mislead them, to confuse them, and to leave them with facile, over-simplified generalizations, hindrances rather than helps for their subsequent thinking. Nor, might one add, does the very uneven style, which ranges from the pedestrian to the bombastic, greatly help in furthering his doubtless noble purpose. Certain sentences, indeed, deserve quotation: "The attitude of this emperor [Nero] toward the new community of Christians was brilliantly illustrated by his exploitation of the effulgent imperial policy of making illuminants of the communicants" (p. 32). "For five hundred years the Pope had been the absolute skipper of that Ark of Salvation with all Western Europe on board" (p. 44). Such statements, one may venture to suggest, are not philosophy, fine writing, or effective popularization. The conclusion of the book is a plea for the surviving democracies which "are attempting to become progressively more scientific" (p. 117). It is followed by the best part of the work: a brief and well-sketched bibliography.—THOMAS I. COOK, University of Washington, Seattle.

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